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ABSTRACTS

WINNERS TAKE ALL

THE POLITICS OF PARTIAL REFORM IN POSTCOMMUNIST TRANSITIONS

By JOEL S. HELLMAN

Conventional models of the politics of economic reform tend to be based on an assumption about the costs and benefits of reform, known informally as the J-curve. Reforms are expected to make things worse before they get better. This presents a classic *time inconsistency dilemma* for reformist governments forced to demand severe sacrifices from the public in the short term for the mere promise of future gains. In response, political economy models of the reform process have tended to stress the importance of insulating governments from the pressures of the short-term losers until a sufficient constituency of winners has been created with a stake in supporting and enhancing the reforms.

Based on evidence from the postcommunist transitions, this article suggests that the most serious political obstacles to the process of economic reform have come not from the short-term losers but from the short-term winners. Groups that gain substantial rents from the early distortions of a partially reformed economy have a stake in maintaining a *partial reform equilibrium* that generates high private gains, but at a considerable social cost. In these countries, the main political challenge has been, not to marginalize the losers, but to restrain the winners. This explains the paradoxical outcome of the postcommunist transitions: that political systems which are more inclusive of the losers have been able to adopt and sustain more comprehensive economic reforms than states insulated from popular pressures.

FIGHTING INFLATION IN A TRANSITIONAL REGIME

RUSSIA'S ANOMALOUS STABILIZATION

By DANIEL S. TREISMAN

Russia's recent experience fighting inflation—dramatic success in 1995–96 after repeated failures in 1992–94—poses a challenge for existing theories of the politics of macroeconomic stabilization. Monthly inflation rates fell to close to zero despite a deeply unpopular president distracted by heart disease, a government penetrated by economic lobbies, a far-from-independent central bank, a parliament dominated by opposition factions, a lively election season, and the fiscal pressures of fighting a regional war. The article reviews this experience, shows its incompatibility with existing political economy theories, and proposes an explanation with implications for other reforming regimes. Success was achieved by offering previous beneficiaries from inflation—major commercial banks and subsidized sectors—other sources of government-protected rents that did not increase the money supply. Even when expropriating powerful rent seekers is politically infeasible, it is sometimes possible to trade them less-inflationary rents for ones that are more inflationary.

WHY LIBERAL STATES ACCEPT UNWANTED IMMIGRATION

By CHRISTIAN JOPPKE

This article explores why liberal states accept unwanted immigration, discussing the cases of illegal immigration in the United States and family immigration in Europe. Rejecting the diagnosis of state sovereignty undermined by globalization, the author argues that self-limited sovereignty explains why states accept unwanted immigration. One aspect of self-limited sovereignty is a political process under the sway of interest-group politics ("client politics," as Gary Freeman says). The logic of client politics explains why the United States accepts illegal immigration. The case of family immigration in Europe suggests two further aspects of self-limited sovereignty: legal-constitutional constraints on the executive, and moral obligations toward historically particular immigrant groups. However, these legal and moral constraints are unevenly distributed across Europe, partially reflecting the different logics of guest worker and postcolonial immigration regimes.

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Clarifying the Foreign Aid Puzzle

A COMPARISON OF AMERICAN, JAPANESE, FRENCH, AND SWEDISH AID FLOWS

By PETER J. SCHRAEDER, STEVEN W. HOOK, and BRUCE TAYLOR

This study explores the donor side of debates revolving around the proper role of foreign assistance as a foreign policy tool, by empirically testing for the aid determinants of four industrial democracies: France, Japan, Sweden, and the United States. A pooled cross-sectional time-series design is employed to assess the impacts of six sets of variables on aid flows to thirty-six African states during the 1980s. Three sets of these variables—humanitarian need, strategic importance, and economic potential—are constructed using data traditionally employed in empirical foreign aid studies. Three additional sets of variables—cultural similarity, ideological stance, and region—are constructed from data that regional specialists consider to be important in the foreign aid equation. Although no two cases are alike, one can nevertheless draw some tentative conclusions about the nature of the foreign aid regime of the final cold war decade of the 1980s on the basis of several cross-national patterns. In short, the results (1) contradict rhetorical statements of northern policymakers who claim that foreign aid serves as an altruistic foreign policy tool designed to relieve humanitarian suffering; (2) confirm the expected importance of strategic and ideological factors in a foreign aid regime heavily influenced by the cold war; and (3) underscore the importance of economic, particularly trade, interests in northern aid calculations.

The Constructivist Turn in International Relations Theory

By JEFFREY T. CHECKEL

In recent years, constructivist thinking about global politics has brought a breath of fresh air to international relations. By exploring questions of identity and interest, constructivist scholars have articulated an important corrective to the methodological individualism and materialism that have come to dominate much of IR. As the books under review indicate, constructivism has also succeeded in demonstrating its empirical value—documenting a new and important causal role for norms and social structure in global politics. Theoretically, however, the approach remains underspecified. In particular, constructivists typically fail to explain the origins of such structures, how they change over time, how their effects vary cross nationally, or the mechanisms through which they constitute states and individuals. Missing is the substantive theory and attention to agency that will provide answers to such puzzles, as well as ensure the development of a productive research program.

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WINNERS TAKE ALL
The Politics of Partial Reform in Postcommunist Transitions

By JOEL S. HELLMAN*

MUCH of our analysis of the politics of economic reform is based on an assumption about the distribution of the costs and benefits of reform, known informally as the J-curve. Simply stated, reforms are expected to make things worse before they get better. In the short term economic reforms are believed to generate transitional costs in the form of high unemployment, price increases, and production declines as the economy adjusts to the tremendous institutional and policy changes necessary to achieve the long-term efficiency gains of an effectively functioning market. Yet the timing of the costs and benefits of reform presents politicians with a serious problem: how can they initiate and sustain reforms that demand severe sacrifices in the short run for the mere promise of future gains? Surely losers in the short term will take revenge against reformers at the first opportunity and spark a backlash against reform. Anticipating this reaction, politicians in democratic systems are understandably reluctant to undertake radical economic reforms. The central political challenge of reform, as expressed in Adam Przeworski's apt metaphor, is therefore to traverse the "valley of transition" in order to climb the "higher hills" of the reformed system.[1] This logic has led to a series of political prescriptions centered around the same theme—to insulate the state from the pressures of the short-term losers until the reforms have created a constituency of winners powerful enough to sustain them.[2]

* The work leading to this paper was supported from funds provided by the National Council for Soviet and East European Research and the Kennan Institute for Advanced Russian Studies, which, however, are not responsible for its contents or findings. This paper was originally presented at the 1996 annual meeting of the American Association for the Advancement of Slavic Studies and the 1997 annual meeting of the American Political Science Association. I would like to thank the participants in those meetings for their very helpful comments, as well as seminar participants at Harvard University and St. Antony's College, Oxford. The views expressed here do not represent those of the European Bank for Reconstruction and Development.

[1] Przeworski, *Democracy and the Market* (New York: Cambridge University Press, 1991), 138.

[2] Variations on this theme have stressed the virtues of autonomous states (Peter Evans, "The State as Problem and Solution: Predation, Embedded Autonomy, and Structural Change," in Stephan Haggard

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Though economic reforms in the postcommunist countries have certainly created more than their fair share of transitional costs, the expected political dynamics normally associated with these costs have been much less evident. The most radical reform programs in the region have been introduced and sustained in the most competitive political systems, where politicians have been most vulnerable to electoral backlash by the short-term losers. Although voters in many cases have rejected radical reform governments in the first postreform elections, the reform programs themselves have endured and, in some cases, even intensified. More surprisingly, the politics of postcommunist economic reforms has not been dominated by the traditional short-term losers of economic transition—striking workers, resentful former state bureaucrats, impoverished pensioners, or armies of the unemployed.

Instead, the most common obstacles to the progress of economic reform in postcommunist transitions have come from very different sources: from enterprise insiders who have become new owners only to strip their firms' assets; from commercial bankers who have opposed macroeconomic stabilization to preserve their enormously profitable arbitrage opportunities in distorted financial markets; from local officials who have prevented market entry into their regions to protect their share of local monopoly rents; and from so-called mafiosi who have undermined the creation of a stable legal foundation for the market economy. These actors can hardly be classified as short-term net losers in the overall reform process. On the contrary, they were its earliest and biggest winners. These net winners did not oppose the initiation of the reform process, nor have they sought a full-scale reversal of reform. Instead, they have frequently attempted to block specific advances in the reform process that threaten to eliminate the special advantages and market distortions upon which their own early reform gains were based. Instead of forming a constituency in support of advancing reforms, the short-term winners have often sought to stall the economy in a *partial reform equilibrium* that generates concentrated rents

and Robert R. Kaufman, eds., *The Politics of Economic Adjustment* [Princeton: Princeton University Press, 1992]); powerful executives (Stephan Haggard and Robert Kaufman, *The Political Economy of Democratic Transitions* [Princeton: Princeton University Press, 1995]); insulated technocrats (John Williamson, "In Search of a Manual for Technopols," in Williamson, ed., *The Political Economy of Policy Reform* [Washington, D.C.: Institute for International Studies, 1994]); and substantial external assistance (Jeffrey Sachs, "Western Financial Assistance and Russia's Reforms," in Shafiq Islam and Michael Mandelbaum, eds., *Making Markets: Economic Transformation in Eastern Europe and the Post-Soviet States* [New York: Council on Foreign Relations, 1993]). Przeworski himself does not support such a view, which he believes will lead to problems in the consolidation of democracy; Przeworski, "Economic Reforms, Public Opinion, and Political Institutions: Poland in the Eastern European Perspective," in Luis C. B. Pereira, Mario M. Maravall, and Adam Przeworski, *Economic Reforms in New Democracies: A Social-Democratic Approach* (New York: Cambridge University Press, 1993).

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for themselves, while imposing high costs on the rest of society.

While conventional models of the politics of economic reform are driven by the short-term incentives of the net losers, the postcommunist transitions appear to have faced far more serious obstacles to the progress of economic reforms from the net winners. Moreover, the obstacles have come less in the form of ex ante opposition to the onset of reform or ex post electoral reversals of reform than in the prolonged maintenance of partial reforms and their associated market distortions. This suggests that the prescriptions derived from conventional models about the political institutions most conducive to economic reform need to be reexamined. This paper concludes that the emphasis on insulating the state from the short-term losers—the major focus of many existing models—needs to be replaced with a recognition of the importance of restraining the winners in the early stages of reform.

The paper begins by testing the applicability to the postcommunist transitions of models based on a J-curve distribution of the costs and benefits of reform. It examines both the ex ante and ex post political constraints on reform predicted from such a model. As for the ex ante constraints, the evidence from these transitions suggests that those countries with more frequent elections and shorter executive tenures, that is, those most susceptible to electoral challenge from short-term losers, have been more likely to adopt comprehensive economic reforms than states that are more insulated from electoral pressures. As for the ex post constraints, annual rankings of the progress of economic reform are examined to demonstrate the weakness of the threat of electoral reversals of reform in the postcommunist transitions.

The paper then presents a model of the politics of economic reform in which the primary political challenge derives from the net winners in the overall reform process. Partial economic reforms are shown to produce market distortions that generate a pattern of concentrated gains and dispersed losses in the short term. Winners have an incentive to try to preserve these sources of considerable rents as long as possible by blocking any measures to eliminate these distortions. Recent evidence on changes in the concentration of incomes in the postcommunist countries is used to confirm this pattern of gains and losses. Transition economies that have introduced only partial reforms have experienced a higher redistribution of income to a narrower constituency than have those countries with either more comprehensive reforms or few reforms at all. The paper concludes with an alternative view of the political institutions most conducive to sustained progress in economic reforms given the challenge posed by the winners.

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The J Curve

Most existing models of the politics of economic reform are based on an analysis of the costs and benefits of reform that conforms to a J-curve, depicted in Figure 1. The simple, compelling idea is that economic reforms generate transitional costs in the short term before they begin to produce their promised economic gains. The magnitude of these costs is believed to be positively correlated with the comprehensiveness (or radicalness) of the reforms adopted. Inefficient enterprises must be closed or restructured, state subsidies and social spending must be reduced, and domestic prices must be raised to world levels—a program that in the short term is expected to generate unemployment, sharp declines in production, and falling living standards. Only when the economy begins to adjust to the new structure of incentives can one expect any amelioration of the situation. Indeed, some analysts even expect the onset of reforms to increase the misallocation of resources in the short run, as poorly defined property rights, the absence of developed financial markets, the continued presence of monopolies, and insufficiently developed human capital distort the response to market incentives.[3]

The depiction of the costs and benefits of reform as a J-curve is particularly compelling from a political standpoint, as it provides a plausible explanation for the central paradox of the political economy of reform: if reforms ultimately make all or a majority of a country's citizens better off, why are they so politically contentious, especially in democratic systems? The standard answer has been that reforms are subject to a time inconsistency problem, requiring actors to accept losses in the short term for the mere promise of future gains. If the government cannot make a credible commitment to maintain those reforms until the promised benefits arrive or to insure that those gains are not confiscated once they do arrive, then it may be rational for economic actors to reject the reforms ex ante.[4]

The J-curve distribution of costs and benefits is also assumed to create a collective action problem that generates political obstacles to economic reform. It is commonly argued that the losses from economic reform are concentrated among specific groups—namely, those who were privileged or subsidized by the previous status quo—while the

[3] This is one of the arguments made against the radical or "big bang" approach to economic reform. For a review of the political economy case against such an approach, see Gerard Roland, "The Role of Political Constraints in Transition Economies," *Economics of Transition* 2, no. 1 (1994).

[4] In the expected utility function of any given actor, the benefits of reform would be discounted by the probability that the reform will be reversed prior to the receipt of the benefits. For a review of this problem in the politics of economic reform, see Mariano Tommasi and Andres Velasco, "Where Are We in the Political Economy of Reform?" (Manuscript, Cambridge, Mass., 1995).

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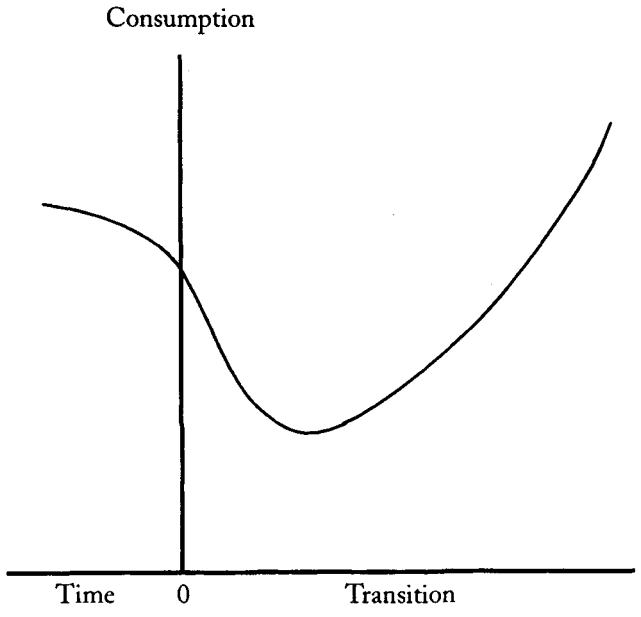

FIGURE 1
THE J CURVE

SOURCE: Przeworski (fn. 1).

benefits of reform are more widely dispersed. Low inflation, increased availability of goods and services, a stable currency, and so forth—these nonexcludable benefits accrue to society as a whole and thus have the characteristics of public goods. If the losses are concentrated and the gains dispersed, then the losers should have greater selective incentives to engage in collective action than the winners.[5] Thus, the losers' political opposition to economic reforms is expected to be more effective than the winners' political support of reform, even if the latter outnumber the former.

The time inconsistency and collective action problems are believed to produce both ex ante and ex post political obstacles to reform. Politicians in democratic systems will be reluctant to introduce any reforms whose benefits will not be realized before the next elections. Since radical reforms are believed to generate higher short-term costs, if they are adopted they are expected to face a high likelihood of ex post reversal as the losers react to the high costs. Politicians are therefore expected to favor more moderate reform programs.

[5] Haggard and Kaufman (fn. 2, 1995).

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These ex ante and ex post political constraints on reform have led many analysts and reform practitioners to emphasize the benefits of insulating reform governments from the pressures of the losers, at least in the initial stages of the reform process. In the earlier literature on the politics of reform, this was the basis for the view that authoritarian governments had an advantage in implementing economic reforms. This has largely been replaced with an emphasis on the benefits of state autonomy, the concentration of executive power, and the delegation of power to technocrats for the adoption of economic reforms.[6] Yet the justification for both views is the same: political institutions need to be structured to shield state actors from the pressures of the short-term losers until the realization of gains from the reforms creates the necessary political constituency to sustain them.

Although the implications of the J-curve approach to the politics of economic reform have been widely accepted, they are based on a number of assumptions that have not been subjected to systematic empirical tests.[7] This approach assumes that economic reforms will generate transitional costs prior to the realization of benefits and that these costs will be greater with the adoption of more extensive reform programs. On the political dynamics of reforms, this approach leads to a simple hypothesis: political systems in which reformers are more susceptible to the reaction of the losers are less likely to adopt extensive economic reforms and more likely to suffer reversals of reform if such measures are adopted. The postcommunist transitions provide an ideal opportunity to test these assumptions about transition costs and the behavior of reformers on a new set of cases.

The recent availability of reliable cross-national data from the postcommunist transitions allows us to test some of the economic assumptions inherent in models based on the J-curve.[8] Though the data

[6] On the earlier literature, see the classic treatment of this issue in Samuel Huntington, *Political Order in Changing Societies* (New Haven: Yale University Press, 1968); and the review in Stephan Haggard, *Pathways from the Periphery: The Politics of Growth in the Newly Industrializing Countries* (Ithaca, N.Y.: Cornell University Press, 1990). The recent work on the advantages of state autonomy and insulation is voluminous. Some prominent examples are Evans (fn. 2); Haggard and Kaufman, "Economic Adjustment and the Prospects for Democracy," in Haggard and Kaufman (fn. 2, 1992); idem (fn. 2, 1995); and the contributions to Williamson (fn. 2).

[7] Nelson argues that this approach can be directly applied to the postcommunist transitions; Joan M. Nelson, "The Politics of Economic Transformation: Is Third World Experience Relevant in Eastern Europe?" *World Politics* 45 (April 1993).

[8] Broad, cross-national comparisons of the postcommunist transitions include EBRD, *Transition Report, 1994* (London: European Bank for Reconstruction and Development, 1994); idem, *Transition Report, 1995* (London: European Bank for Reconstruction and Development, 1995); and World Bank, *World Development Report, 1996* (Washington, D.C.: World Bank, 1996). Other studies include Anders Åslund, Peter Boone, and Simon Johnson, "How to Stabilize: Lessons from the Postcommunist Countries," *Brookings Papers on Economic Activity* (1996); Martha de Melo, Cevdet Denizer, and

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TABLE 1
CHANGE IN GDP

	1989	*1990*	*1991*	*1992*	*1993*	*1994*	*1995*
All countries	1.55	−4.50	−10.45	−17.17	−9.29	−7.74	−0.84
Excluding war	1.93	−3.20	−10.65	−13.79	−6.67	−6.02	0.11

SOURCE: EBRD (fn. 8, 1995).

confirm that the introduction of economic reforms entails substantial transitional costs, they challenge the assumption linking the magnitude of these costs to the extensiveness of the reforms adopted. Table 1 presents data on the average annual growth rates for the entire set of postcommunist cases, as well as for those transition countries not affected by war. The transitional costs of reform as reflected in declining growth rates do appear to follow a J-curve pattern. The average growth rate for the region begins to fall in 1990 (−4.5) dropping to its lowest level in 1992 (−17.7 percent), and then beginning a gradual recovery. However, an examination of the postcommunist countries grouped by the extent of their economic reforms reveals an unexpected picture.

The World Bank has developed a set of indicators to measure the extent of liberalizing reforms adopted in three broad areas (internal prices, external prices, and private sector entry) across all the transition economies.[9] On the basis of these indicators, the transition economies can be separated into four main groups: advanced reformers, high intermediate reformers, low intermediate reformers, and slow reformers.[10] Figure 2 compares the average annual change in growth rates for each group. It is not the advanced reformers that have suffered the sharpest declines in real GDP, as the J-curve approach would predict, but the intermediate reformers. Indeed, the advanced reformers have the lowest overall output declines and the most rapid recoveries.[11] The average ratio of real GDP in 1994 to the 1989 level in the advanced reform group was 83 percent. The average ratio declined to 65 percent for the high intermediate reformers, 57 percent for the low intermediate reformers, and 72 percent for the slow reformers.[12] Among the postcom-

Alan Gelb, *From Plan to Market: Patterns of Transition,* World Bank Policy Research Working Paper, no. 1564 (1996); and Stanley Fischer, Rajiv Sahay, and Carlos Vegh, "Stabilization and Growth in Transition Economies: The Early Experience" (Manuscript, Washington, D.C., 1996).

[9] World Bank (fn. 8).

[10] The groups exclude those countries affected by war: Armenia, Azerbaijan, Croatia, Georgia, Macedonia, and Tajikistan.

[11] Similar results can be obtained by replacing the economic reforms ratings of the World Bank with transition indicators developed by the EBRD that measure progress in six categories of reform; EBRD (fn. 8, 1994). The EBRD measures include more institutional variables in their ratings.

[12] De Melo, Denizer, and Gelb (fn. 8).

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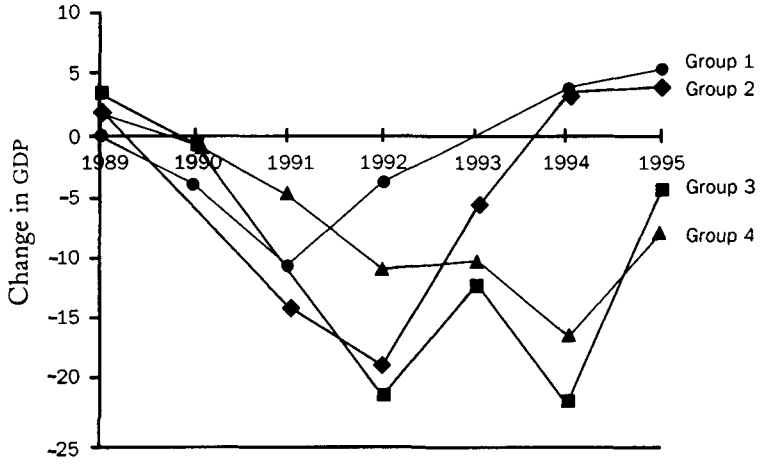

FIGURE 2
GDP BY REFORM GROUP

munist countries the preliminary evidence suggests that the deeper the economic reforms adopted, the less steep is the valley of the transition in terms of overall transitional costs. In other words, the costs of reform are not positively correlated with the extensiveness of the reforms adopted.[13]

The pattern of unemployment among the postcommunist countries—generally seen as a critical factor shaping the politics of economic reform—conforms more closely to the expectations of the J-curve approach. Table 2 presents data on registered unemployment in the postcommunist countries, grouped by their scores on the World Bank's liberalization index.[14]

The countries that have undertaken reform do exhibit considerably higher unemployment than the slowest reformers, but the relationship between the extensiveness of adopted reforms and the level of unemployment is less clear. Åslund, Boone, and Johnson find no statistically significant correlation between the extent of economic reforms and unemployment rates once some basic control variables are included in the regression.[15] In addition, the evidence from individual cases is mixed. Despite having introduced and maintained one of the most compre-

[13] Åslund, Boone, and Johnson (fn. 8) find no direct statistical correlation between the extent of economic reforms adopted and the magnitude of cumulative output declines once some basic control variables are added to the regression. They do not test for the existence of a nonlinear relationship as Figure 2 would suggest. Nevertheless, they reach the same conclusion through comparative case analysis.

[14] Unemployment data from the postcommunist countries have serious reliability problems and therefore must be used cautiously.

[15] Åslund, Boone, and Johnson (fn. 8).

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TABLE 2
UNEMPLOYMENT

	1990	*1991*	*1992*	*1993*	*1994*
Advanced					
Poland	6.1	11.8	13.6	16.4	16
Slovenia	4.7	8.2	11.1	14.5	14.5
Hungary	2.5	8.0	12.3	12.1	10.9
Czech Republic	0.8	4.1	2.6	3.5	3.2
Slovak Republic	1.5	11.8	10.4	14.4	14.8
Average	3.1	8.8	10.0	12.2	11.9
High intermediate					
Estonia	0.0	0.1	4.8	8.8	8.1
Bulgaria	1.5	11.1	15.3	16.4	12.8
Lithuania	0.0	0.3	1.3	4.4	3.8
Latvia	0.0	0.1	2.1	5.3	6.5
Albania	7.7	8.6	26.9	28.9	19.5
Romania	0.0	3.0	8.4	10.2	10.9
Average	1.5	3.9	9.8	12.3	10.3
Low intermediate					
Kyrgyzstan	0.0	0.0	0.1	0.2	0.7
Russia	0.0	0.1	0.8	1.1	2.2
Moldova	0.0	0.0	0.7	0.8	1.2
Kazakhstan	0.0	0.1	0.5	0.6	1.0
Average	0.0	0.1	0.5	0.7	1.3
Slow					
Uzbekistan	0	0	0.1	0.2	0.3
Ukraine	0	0	0.3	0.4	0.4
Belarus	1	1	0.5	1.5	2.1
Turkmenistan	0	0	0	0	n.a.
Average	0.3	0.3	0.2	0.5	0.9
War					
Armenia	1	3.5	3.5	6.2	5.6
Azerbaijan	0	0.1	0.2	0.7	0.9
Georgia	0	0	5.4	8.4	n.a.
Tajikistan	0	0	0.3	1.1	1.7
Croatia	9.3	15.5	17.8	17.5	18
Macedonia	n.a.	18	19	19	19
Average	2.1	6.2	7.7	8.8	9.0

SOURCE: De Melo, Denizer, and Gelb (fn. 8).

hensive reform programs, the Czech Republic has kept its unemployment rates quite low. At the same time, less comprehensive reformers, such as Albania, Bulgaria, and Romania, have suffered from relatively high unemployment. States of the former Soviet Union (FSU) have generally maintained lower unemployment than those of Eastern Eu-

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rope, but the most comprehensive reformers within the FSU (the Baltic states) have had the highest unemployment rates.

The political implications of the J-curve model have never been tested systematically. If ex ante political incentives are an impediment to the adoption of comprehensive economic reforms, one would expect politicians facing greater electoral pressures and having a shorter expected tenure to be less likely to initiate such reforms. As Haggard and Kaufman argue, from the politician's point of view, some degree of security of tenure "would appear to be a minimal requirement of successful reform, since a high degree of insecurity shortens time horizons and increases the discount rate to future payoffs [from economic reforms]."[16]

Table 3 presents data on the number of executive turnovers and the average length of government tenure in the postcommunist states, excluding those affected by war.[17] Again, the countries are grouped by their World Bank liberalization scores. The first column indicates the number of executive turnovers that has occurred from the onset of the transition through the end of 1995.[18] Both the advanced and the intermediate reformers have an average of just over three and half executive turnovers, while both groups of slow reformers average no more than one turnover in the same period. Poland, one of the most celebrated cases of radical reform in the region, has had seven prime ministers and three presidents between 1990 and 1997. The Baltic countries, which have been the most advanced reformers of the FSU, have all had no fewer than four prime ministerial turnovers since independence. While other advanced reformers have had more stable governments, all of them have experienced some turnover in their prime ministers since the beginning of their transitions. In contrast, among the slow reformers, Ukraine and Belarus are the only countries that have changed their chief executives since the onset of the transition.

The differences in executive turnovers are reflected from another vantage point in the evidence on the tenure of postcommunist governments from Table 3.[19] The countries of the first two reform groups had

[16] Haggard and Kaufman (fn. 2, 1995), 156.

[17] Postcommunist cases affected by war are excluded because executive turnovers are much more likely to be affected by the dynamics of war.

[18] Executive turnovers consist of the number of times the country's lead policy-making executive has been replaced during the time period. In presidential systems, presidential turnovers are counted. In parliamentary and semipresidential systems, prime ministerial turnovers are counted. A count of zero signifies that the same executive governing the country under communist rule was still governing the country through the transition, thus indicating no executive turnovers at all.

[19] Government tenure consists of the number of months in which the leading executive (president in presidential systems and prime minister in parliamentary and semipresidential systems) has remained in office.

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TABLE 3
GOVERNMENT STABILITY

	Executive Turnovers	*Average Government Tenure (# Months)*
Advanced		
Poland	6	14
Slovenia	2	34
Hungary	3	26
Czech Republic	2	35
Slovakia	5	14
Average	3.6	24.6
High intermediate		
Estonia	4	17
Bulgaria	6	13
Latvia	4	15
Lithuania	5	14
Albania	2	27.5
Romania	1	67
Average	3.7	25.6
Low intermediate		
Kyrgyzstan	1	62
Russia	1	54
Moldova	1	61
Kazakhstan	0	69
Average	0.8	61.5
Slow		
Turkmenistan	0	62
Ukraine	2	24
Uzbekistan	0	62
Belarus	2	26
Average	1	43.5

an average government tenure of approximately twenty-five months. Six of the eleven countries in these two groups had an average government tenure of less than eighteen months. While some of the most successful reformers—the Czech Republic, Hungary, and Slovenia—have had individual governments with relatively long tenures, these governments do not necessarily fit well with the standard image of reform governments as strong, streamlined, and relatively autonomous, with the capacity to push through reforms despite bureaucratic and popular opposition. In Slovenia the Drnovsek government, which has been in office since May 1992, began as an explicitly transitional government until parliamentary elections in December 1992. Since the elections Drnovsek has headed a fragile, five-party coalition government that has

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been subject to frequent no-confidence votes and whose continued survival has often been tenuous.[20] In Hungary the government of Josef Antall, though quite secure, rejected the radical approach to economic reform and pursued an explicitly gradual strategy that benefited from Hungary's prior history of communist-era reforms.[21] The only case of radical economic reform pursued by a stable government with a high degree of security and autonomy is the Klaus government in the Czech Republic.[22]

The slow reformers generally have political leaders with the longest and most secure tenures in the region. With the exception of Belarus and Ukraine, all of the slow reformers have been ruled continuously by the same respective presidents since the start of their transitions.[23] Among the advanced and intermediate reformers, Romania had a similar unbroken presidential rule until the recent defeat of Ion Iliescu in the November 1997 presidential election.[24]

The postcommunist countries with more frequent executive turnovers and shorter government tenures have generally been the most far-reaching economic reformers. Politicians with shorter expected time horizons have nevertheless been far more likely to adopt economic reforms.[25] Those political leaders with the greatest security of tenure have

[20] On Slovenia, see Sabena Petra Ramet, "Slovenia's Road to Democracy," *Europe-Asia Studies* 45, no. 5 (1993); and Boris Pleskovic and Jeffrey D. Sachs, "Political Independence and Economic Reform in Slovenia," in Oliver J. Blanchard, Kenneth A. Froot, and Jeffrey D. Sachs, eds., *The Transition in Eastern Europe* (Chicago: University of Chicago Press, 1994), 1.

[21] On Hungary, see David L. Bartlett, "Stabilization, Adjustment, and Reform: The Political Economy of Transition in Hungary" (Manuscript, 1995); Laszlo Bruszt and David Stark, "Remaking the Political Field in Hungary: From the Politics of Confrontation to the Politics of Competition," in Ivo Banac, ed., *Eastern Europe in Revolution* (Ithaca, N.Y.: Cornell University Press, 1992); and Valerie Bunce and Mario Csanadi , "Uncertainty in the Transition: Post-Communism in Hungary," *East European Politics and Society* 7, no. 2 (1993).

[22] Even Vaclav Klaus has faced strong electoral pressures, as evidenced by his poor performance in the 1996 parliamentary elections. Klaus' s three-party coalition government lost its majority share and has been governing as a minority coalition. On the Czech Republic, see Mitchell Orenstein, "Out of the Red: Building Capitalism and Democracy in Post-Communist Europe" (Ph.D. diss., Yale University, 1996).

[23] This should not be taken as a proxy measure for the continued dominance of former communist rulers in the postcommunist era. Not all of the slow reformers have faced continuous rule by former communist leaders. Kazakhstan, Turkmenistan, and Uzbekistan did continue to be governed by chief executives who were former first secretaries of their respective communist parties prior to the transition. The first leader of Ukraine, Leonid Kravchuk, was formerly second secretary of the Ukranian Communist Party. In Belarus, Kyrgyzstan, Moldova, and Russia, new chief executives were elected, most of whom held previous positions—though not the leading positions—in the communist parties of their respective republics prior to the transition.

[24] Romania is a semipresidential system in which the popularly elected president shares considerable powers with a parliamentary government. Since 1990 Romania has had three prime ministers with an average tenure of twenty-one months each. On Romania, see Katherine Verdery and Gail Kligman, "Romania after Ceausescu: Postcommunist Communism?" in Banac (fn. 21).

[25] In a recent paper on the politics of stabilization in postcommunist systems, I show that stabilization programs are as likely to be introduced just before elections—the moment of greatest insecurity in a politician's tenure—as immediately after electoral victories; see Joel S. Hellman, "Competitive Advantage: Political Competition and Economic Reform in Post-Communist Transitions" (Manuscript, 1996).

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tended to introduce partial economic reforms or have delayed reforms altogether, even though they would appear to have faced the weakest threat of electoral or popular challenge to more comprehensive reforms. Although this evidence cannot support a causal link between executive turnovers, government stability, and economic reform, it does challenge the notion that the threat of electoral revenge against the short-term costs of economic reform is a substantial ex ante obstacle to the adoption of reform in the postcommunist transitions.

If the political threat to economic reform is primarily ex post, then we would expect to see economic reforms reversed or otherwise moderated in the electoral cycle following their initial adoption. Przeworski argues that the high short-term costs of reform are likely to spark an electoral backlash and subsequent reversal or moderation of reforms. This creates a familiar stop-and-go pattern of economic transition in which reforms "proceed in spurts: advancing, stumbling, retreating and advancing again."[26] The postcommunist countries have certainly experienced the pressures of electoral backlashes against reform. In three of the five countries in the advanced reform group—Hungary, Poland, and the Slovak Republic—reform governments have been voted out of office to be replaced by parties advocating more moderate reforms. Similar reversals of reform governments have occurred in three of the six countries in the high intermediate reform group—Bulgaria, Estonia, and Lithuania. However, these electoral reversals have not been accompanied by any major reversals in the course of economic reform in these countries.

Table 4 presents the annual scores on the three categories of the World Bank's liberalization index for the six countries listed above that have had electoral backlashes against reform governments. By the end of 1994 there were only two instances in which these liberalization scores declined from year to year. In Bulgaria scores on the liberalization of internal and external prices declined slightly from 0.9 in 1993 to 0.8 in 1994 (on a 0–1 scale with 1 as fully liberalized), as the nonparty government of technocrats led by Luben Berov was replaced after a general election by the Bulgarian Socialist Party. A similarly modest decline in the liberalization score on external prices from 0.9 to 0.8 was recorded between 1992 and 1993 in the Slovak Republic following the breakup of Czechoslovakia. According to the World Bank scores, there were no other substantial reversals of liberalizing reforms in any of the postcommunist countries that experienced electoral backlashes against

[26] Przeworski (fn. 1), 179.

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TABLE 4
SELECTED CLI SCORES

	1990	*1991*	*1992*	*1993*	*1994*
Hungary					
Internal prices	0.8	0.9	0.9	0.9	0.9
External prices	0.7	0.9	0.9	0.9	0.9
Private sector entry	0.3	0.5	0.6	0.7	0.8
Poland					
Internal prices	0.7	0.7	0.9	0.9	0.9
External prices	0.9	0.9	0.9	0.9	0.9
Private sector entry	0.5	0.6	0.9	0.7	0.8
Lithuania					
Internal prices	0.3	0.5	0.8	0.9	0.9
External prices	0	0.2	0.5	0.9	1
Private sector entry	0.1	0.3	0.4	0.6	0.8
Estonia					
Internal prices	0.3	0.5	0.9	0.9	0.9
External prices	0.1	0.3	0.7	1	1
Private sector entry	0.2	0.2	0.4	0.6	0.8
Slovakia					
Internal prices	0	0.9	0.9	0.9	0.9
External prices	0	0.8	0.9	0.8	0.8
Private sector entry	0.4	0.7	0.8	0.8	0.8
Bulgaria					
Internal prices	0	0.9	0.9	0.9	0.8
External prices	0.5	0.9	0.9	0.9	0.8
Private sector entry	0.1	0.2	0.3	0.3	0.4

SOURCE: World Bank (fn. 8).

reform governments. Indeed, out of the entire set of postcommunist countries the two minor declines described above were the only two reversals in reform scores from 1989 to 1994.[27]

Electoral backlashes did occasionally slow the rate of progress in particular areas of economic reform. The speed of large-scale privatization slowed considerably in Lithuania and Poland after the electoral victories of communist successor parties in those countries. Voucher privatization was also delayed in the Slovak Republic after the breakup of Czechoslovakia.[28] Yet there have also been cases in which electoral backlashes against reform-oriented governments were followed by an

[27] Similarly, the EBRD's transition indicators measuring progress in economic reform in six categories in 1994 and nine categories in 1995 do not reflect any backtracking on reform scores in any of the postcommunist countries; EBRD (fn. 8, 1994, 1995).

[28] For detailed accounts of the privatization process in Central Europe and the Baltic states, see Roman Frydman and Andrzej Rapaczynski, *The Privatization Process in Central Europe*, 2 vols. (Budapest: Central European University, 1993).

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intensification of reform in some areas. Russia made the greatest progress in large-scale privatization only after the reform government of Egor Gaidar was forced out of office.[29] Hungary and Lithuania implemented tough macroeconomic stabilization programs after electoral victories by socialist parties.[30] Estonia has continued its rapid pace of economic reform following the replacement of the reform government of Mart Laar by the far more moderate Vahi government.

Though in most cases the introduction of comprehensive economic reform programs did spark revenge at the ballot box against reform governments, the electoral reversals did not generate the expected reform reversals. The notion that politicians would be forced to reverse reforms in response to the popular reaction against high transitional costs has to date not been evident in the postcommunist transitions.[31]

The postcommunist countries present a paradox in the political economy of reform. In the conventional view, comprehensive reforms face ex ante and ex post political obstacles from losers who react against the short-term transitional costs of reform, despite the promise of benefits in the long term. Yet in the postcommunist transitions, more comprehensive reform programs appear to have inflicted lower transitional costs in the short term than have intermediate or slow reforms. Moreover, it has been precisely those countries in which the political leaders have been most vulnerable to the demands of the short-term losers that have adopted and sustained the highest levels of economic reform. Governments that have been insulated from electoral pressures and that have enjoyed a high level of tenure security—which traditionally have been seen as the most capable of initiating necessary, but costly economic reforms—have proven to be the laggards in the postcommunist economic transitions. Why have so many postcommunist countries chosen a course of partial reforms with higher social costs in the short term and lower expected gains in the long term? If the pressure to adopt a suboptimal course of reform does not derive from the traditional losers—unemployed workers, impoverished pensioners, superfluous state bureaucrats, and so on—what are the political dynamics driving partial reforms?

[29] Ibid.

[30] For assessments of macroeconomic policy in Hungary and Lithuania, see the country sections in EBRD (fn. 8, 1995).

[31] Of course, this does not preclude such reform reversals in the future, nor is it necessarily advantageous for the creation of a stable democracy. Przeworski (fn. 2) expresses the concern that electoral backlashes against reformers that do not lead to backtracking on economic reform can be politically destabilizing in emerging democracies. If voters continue to find that their votes are not reflected in policy changes, then they could lose confidence in the democratic process and be more attracted to authoritarian solutions.

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The Politics of Partial Reform

The exclusive focus on the net losers in the political economy of reform has deflected attention from analyzing the interests and incentives of the net winners. The conventional approach to the politics of economic reform is based on a simple, seemingly uncontroversial assumption, that economic reforms create winners who gain stakes in defending and extending those reforms. One of the goals of reform, therefore, is to create a constituency of winners that will support ongoing efforts to advance the transition to a market economy.[32] The most frequently cited problem of relying on the winners in the short term is that the gains from reform are dispersed throughout the entire economy, while the losses are concentrated within particular groups. The efficiency gains normally associated with economic reform—reducing inflation, creating a stable currency, lowering fiscal deficits, and increasing the availability of goods and services—can be considered as public goods. Therefore, the beneficiaries of these policies face barriers to collective action. By contrast, the losers face concentrated costs in the short term and thus have strong selective incentives to engage in collective action against the reforms.[33] Though the winners and potential winners are seen as the best hope of creating a constituency for reform, the pattern of gains from reform in the short term is assumed to weaken their effectiveness as a political force.

This raises a question that has not been investigated in the political economy of reform: who gains from partial economic reforms?[34] Partial reforms entail the selected introduction of market mechanisms into an

[32] This assumption is especially important in political economy models that are designed to highlight the advantages of gradual reforms. Roland argues that the best political strategy of reform is to start with measures that produce winners in the short term who gain a stake in the reform process that they will continue to defend once more costly measures need to be adopted down the road. See Gerard Roland, "Political Economy of Sequencing Tactics in the Transition Period," in Laszlo Csaba, ed., *Systemic Change and Stabilization in Eastern Europe* (Aldershot, U.K.: Dartmouth Press, 1991); and idem (fn. 3). This is also the spirit of Murrell's critique of the shock therapy reform program; Peter Murrell, "Conservative Political Philosophy and the Strategy of the Economic Transition," *East European Politics and Societies* 6, no. 1 (1993); and idem, "Evolution in Economics and in the Economic Reform of the Centrally Planned Economies," in Christopher Clague and Gordon C. Rausser, eds., *The Emergence of Market Economies in Eastern Europe* (Cambridge, Mass.: Blackwell, 1992).

[33] Haggard and Kaufman (fn. 2, 1995), chap. 1, emphasize this collective action dilemma in the political economy of reform.

[34] The only work that explicitly examines the dynamics of partial reform is Kevin M. Murphy, Andrei Shleifer, and Robert Vishny, "The Transition to a Market Economy: Pitfalls of Partial Reform," *Quarterly Journal of Economics* 57, no. 3 (1992). Ronald I. McKinnon touches on this issue in his analysis of different sequences of economic reform; see McKinnon, *The Order of Economic Liberalization: Financial Control in the Transition to a Market Economy* (Baltimore: Johns Hopkins University Press, 1991). Richard E. Ericson discusses the social costs of partial reforms in the specific context of the transition from centrally planned economies, though he does not explore the distribution of gains from such reforms; see Ericson, "The Classical Soviet-Type Economy: Nature of the System and Implications for Reform," *Journal of Economic Perspectives* 5, no. 4 (1991).

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economy in which substantial spheres of economic activity still operate according to alternative mechanisms of coordination. It was recognized early in the transition that partial reforms threatened to disrupt the stability and effectiveness—however limited—of the existing economic system without necessarily generating the efficiency gains associated with fully functioning markets.[35] As a result, partial reforms were predicted to generate higher social costs in the short term than both comprehensive reforms and maintenance of the status quo. At the same time, partial reforms were expected to generate rent-seeking opportunities arising from price differentials between the liberalized sectors of the economy and those still coordinated by nonmarket mechanisms.[36]

Examples of such rent-seeking activities have been ubiquitous in the postcommunist transitions. Rapid foreign trade liberalization with incomplete price liberalization has allowed state enterprise managers to sell their highly subsidized natural resource inputs (for example, oil and gas) to foreign buyers at world market prices. Price liberalization without concomitant progress in opening market entry or breaking up monopolies has created opportunities for some producers to earn monopoly rents. Privatization without reform of the credit mechanism has allowed managers to divert subsidized state credits earmarked to uphold production into short-term money markets at high interest rates. In each case, these arbitrage opportunities have generated rents to those in a position to take advantage of these market distortions. Yet the redistribution of rents leads to a misallocation of resources in comparison with the more efficient rationing that might be expected from a fully functioning market.

To some extent, these rent-seeking opportunities should exist regardless of the reform strategy adopted. The transition from a command economy to a market economy requires an extensive set of policy and institutional changes, many of which have different time horizons. Clearly, prices can be liberalized far more quickly than monopolies can be broken up. Interest rates can be changed more quickly than new commercial banks capable of evaluating loan requests can be created. Restrictions on foreign and domestic trade can be lifted more quickly than adequate mechanisms for contract enforcement can be put into

[35] Ericson (fn. 34).

[36] The fact that such market distortions exist does not guarantee that actors will be able to take advantage of them in these partially reformed economies. It is possible that a highly restrictive state could build walls between the liberalized and more highly controlled spheres of the economy, preventing actors from gaining access to these rent-seeking opportunities. This is often the explanation for the success of China's partially reformed economy, though press reports of high levels of corruption within China's state sector suggest that there are limits to the state's capacity to enforce such restrictions; Murphy, Shleifer, and Vishnay (fn. 34).

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place. These differentials in the time horizons of various components of comprehensive reform produce temporary market distortions similar to the gaps associated with the explicit introduction of partial reforms.

Both comprehensive and partial economic reforms produce winners in the short term, with gains partly or wholly determined by rents generated by the existence of distortions in the developing market economy. Moreover, these rents are highly concentrated, benefiting those in a position to arbitrage between the reformed and unreformed sectors of the economy.

If economic reforms continue to progress over time, then the market distortions that produce these concentrated rents should gradually be eliminated. Further price liberalization undermines arbitrage operations between the fixed-price state sector and the free-price export sector. The progressive hardening of enterprise budget constraints eliminates the misallocation of state subsidies. Privatization coupled with the creation of an effective corporate governance structure reduces asset stripping by enterprise insiders. While these measures produce efficiency gains for the economy, they also alter the flow of private gains to the initial winners of reform. The winners give up a concentrated stream of rents generated by the initial market distortions for a share of the overall efficiency gains associated with further market reforms. As a result, progress in the implementation of market reforms could reduce the private gains to the initial winners over time, while increasing efficiency gains for the economy as a whole.

From the perspective of the winners, the traditional J-curve is reversed, as in Figure 3. Their incomes rise rapidly in the short term as the initial market distortions generate concentrated rents. Yet over time, the progress of reforms gradually eliminates those distortions, dissipating the rents from the initial stages of reform. The shape of this winner's curve would depend on the comprehensiveness of the reform at the start of the transition and the continued pace of reforms over time. In Figure 3, the line W_p represents the winners' consumption curve in a country that began the transition with partial reforms. The line W_c denotes the winners' income curve in a country that began with a more comprehensive reform program. The flatter curve suggests that comprehensive reforms generate less concentrated rents for the winners in the short term and less steep income declines as the reforms progress.

By adding these winners' curves to the traditional J-curve, a different picture of the political economy of reform in postcommunist transitions emerges. If partial reforms generate higher social costs in the short

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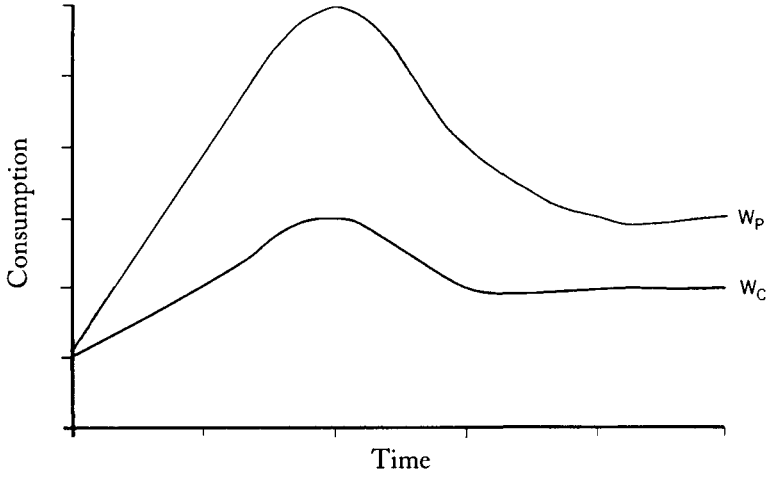

FIGURE 3
THE WINNER'S CURVE

term, then the increasing concentration of rents to the winners should entail a corresponding decrease in consumption of the losers. In Figure 4, the losers' consumption curve in a partially reformed economy, L_p, is the mirror image of the winners' curve, W_p. As the private gains to the winners from partial reform increase, the costs to the losers increase as well. If the distortions of partial reform are gradually eliminated over time, then the winners face a reduction in their rents, while the losers share in the efficiency gains of further market reforms, thus narrowing the gap between the two curves. Countries that adopt more comprehensive reforms at the start have a narrower gap between the income curves of the winners and losers, W_c and L_c. The transitional costs of reform in the short term are lower than under partial reform and the losers begin to see gains from reform at an earlier point in the process and at a higher level.

In the standard J-curve approach, if elections are called prior to the point at which the reforms have begun to produce benefits for the majority of voters, the voters will react to the short-term costs by casting their ballots for a reversal or moderation of the reforms. Yet the addition of the winners suggests a different approach to the political obstacles to economic reform. The politics of economic reform is usually portrayed as a set of choices between omnibus reform programs (radical versus gradual) at key junctures in the political process (namely,

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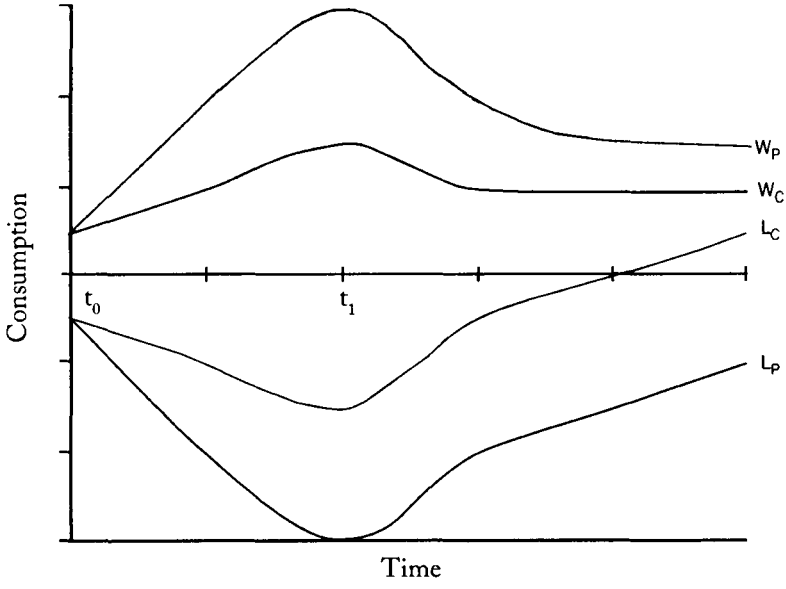

FIGURE 4

elections) in which voters play the deciding role. Yet the process might be more realistically depicted as a sequence of many distinct choices over time on separate components of an overall reform plan—liberalization, stabilization, privatization, and many more—that do not necessarily coincide with the electoral calendar. In such a process, the winners with their concentrated gains would be expected to play a more decisive role, given their greater resources, their smaller number, and their selective incentives for collective action. Indeed, it is reasonable to assume that the winners might have an implicit veto power in the decisions over separate components of economic reform, especially those that affect their existing rent streams.

Returning to Figure 4, if the process of reform consists of a sequence of decisions over time, then the winners will continue to support the advance of reforms until time t_1. Beyond t_1, the winners have an incentive to veto any reform proposals that move the economy toward more comprehensive reforms, since such measures will begin to decrease the rents they gained at the earlier stage of the reform process. Thus, the winners prefer to freeze the emerging market economy in some partially reformed state that maximizes the concentration of rents to themselves, though at a significant social cost. While the political challenge of the J-curve was to maintain reforms through the valley of the

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transition, the challenge of partial reform is to sustain the momentum of reform past the "peak of transition," that is, the point at which further reforms threaten the rents accruing to winners from the distortions created by earlier reforms.

This highly stylized model of the politics of economic reform differs sharply from the standard approach. While the J-curve approach assumes that the costs of reform are concentrated and the benefits are dispersed, this model begins with the opposite assumption. The gains from reform are highly concentrated within a narrow group of winners in the short term and are dispersed over time only if the reform process progresses. The costs of reform, by contrast, are dispersed across the entire economy from the start. The J-curve approach assumes that the transitional costs of comprehensive reforms in the short term are greater than those accompanying more gradual reforms, while this model again assumes the opposite. The conventional approach characterizes the politics of economic reform as a choice between omnibus reform programs made by voters at key points in the political calendar. This model portrays the reform process as a sequence of decisions on separate components of reform that is continuous over time and in which the winners who gained from earlier decisions have the decisive voice.

On the basis of these alternative assumptions, the partial reform model presented here suggests a very different characterization of the political obstacles to economic reform in the postcommunist transitions. The political dilemma of economic reform is not how to sustain reform in the face of opposition from the net losers in the short term, but how to advance reform in the face of efforts by the net winners to preserve the market distortions that produced their gains in the short term.

Evidence

One of the key predictions of this alternative approach is that countries that have maintained partial reforms should exhibit a greater concentration of gains to the winners and a higher level of transitional costs than those countries that have pursued more comprehensive reforms. One way to gauge the degree of partial reforms is to examine different levels of progress in each of the separate components that are generally considered to constitute a comprehensive reform program. The European Bank for Reconstruction and Development (EBRD) defines nine separate dimensions of the reform process: privatization (large- and small-scale), enterprise restructuring, price liberalization, foreign trade liberalization, competition policy, banking reform, secu-

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rities market reform, and legal reform.[37] The EBRD provides a rating of cumulative progress along each dimension on a 1–4 scale. By taking the variance (that is, the dispersion around the mean) of these ratings for each of the postcommunist countries, we obtain a very rough measure of imbalances in the level of progress across the separate dimensions.[38] The variances are reported in the first column of Table 5. Higher variances indicate more unbalanced progress across the different dimensions of economic reform and, hence, a greater degree of partial reforms. The average variances for each of the four groups of countries show a curvilinear pattern among the groups. Both the advanced and the slow reform groups have low variances across their reform scores, while the intermediate groups have considerably higher variances suggesting more uneven progress in economic reform.

If the countries of the intermediate groups have maintained the most uneven or partial economic reforms, then they should demonstrate a higher concentration of gains from reform along with higher overall social costs. Though highly incomplete, recent data on inequality and income concentration across the transition economies show some interesting trends.[39] The transition in the postcommunist countries has sparked an extremely rapid redistribution of income. Since the beginning of the transition, the level of income inequality has risen in every postcommunist country with the exception of the Slovak Republic. The average Gini coefficient—one of the standard measures of inequality—for the entire region jumped by one-third, from 24 in 1987–88 to 32 in 1993–94, a pace virtually unprecedented in the postwar era.[40] In a time

[37] Of course, these are not the only components of comprehensive reform, but they do encompass what are generally considered to be the key elements of reform. See EBRD (fn. 8, 1995).

[38] Such a measure assumes that the distance separating the thresholds of the 1–4 scale within each dimension are directly comparable across all the dimensions, which may not necessarily be the case. As a result, this measure of partial reform should be interpreted with considerable caution. Given the potential measurement error in gauging partial reform, it would not be appropriate to use these data in any sophisticated statistical tests. Rather, at this stage the data are more suggestive of trends that are worthy of further empirical investigation.

[39] The World Bank has collected the only detailed data on inequality and the concentration of incomes in the transition economies based on household surveys. Unfortunately, because data are not available on the entire set of transition economies, it is impossible to make any statistical tests on this small sample of countries. Branko Milanovic presents the data and provides an interesting analysis of the relationship between inequality and poverty. See Milanovic, *Poverty, Inequality and Social Policy in Transition Economies*," World Bank Policy Research Working Paper, no. 1530 (1995); and idem, *Income, Inequality and Poverty during the Transition*, Transition Economies Division Research Paper Series 11 (1996). Data on inequality among postcommunist countries require more than the standard caveats in this field, given the strong incentives to hide income from taxation at all levels. Gini coefficients from the prereform period should be biased downward, given the ideological constraints on revealing inequalities in socialist systems and the numerous forms of perquisites in kind available to the *nomenklatura*. In the transition period Gini coefficients are likely to be biased downward, as higher income groups have greater access to outlets for hiding income than do those in lower income groups.

[40] Milanovic (fn. 39, 1996), chap. 4.

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TABLE 5
PARTIAL REFORM AND INEQUALITY

	Variance in EBRD Scores	*Gini Coeff 1988–89*	*Gini Coeff 1993–94*	*% Change Gini 1988–94*	*Change in Income Share Top Quint*	*GDP 1993–94 GDP 1988–89*
Advanced						
Poland	0.25	26	31	0.19	3.43	88
Slovenia	0.36	24	28	0.17	3.76	84
Hungary	0.28	21	23	0.10	1.07	81
Czech Republic	0.28	19	27	0.42	5.77	81
Slovakia	0.19	20	20	0.00	–0.10	79
Average	0.27	22	25.8	0.18	2.79	82.6
High intermediate						
Estonia	0.44	23	39	0.70	13.61	73
Bulgaria	0.53	23	34	0.48	7.78	69
Latvia	0.75	23	27	0.17	4.01	60
Lithuania	0.69	23	36	0.57	9.75	44
Albania	1.25	n.a.	n.a.	n.a.	n.a.	74
Romania	0.78	23	29	0.26	4.08	69
Average	0.74	23	33.0	0.43	7.85	64.8
Low intermediate						
Kyrgyzstan	0.94	26	35	0.35	n.a.	61
Russia	0.53	24	48	1.00	20.02	57
Moldova	0.53	24	36	0.50	8.89	53
Kazakhstan	0.36	26	33	0.27	n.a.	57
Average	0.59	25	38.0	0.53		57.0
Slow						
Turkmenistan	0.11	26	36	0.38	n.a.	69
Ukraine	0.19	23	33	0.43	n.a.	56
Uzbekistan	0.25	28	33	0.18	n.a.	89
Belarus	0.11	23	28	0.22	n.a.	73
Average	0.17	25	32.5	0.30		71.75

SOURCE: Milanovic (fn. 39, 1996), 58.

span of five to seven years the transition economies have moved from inequality levels below those of most OECD countries to, in several cases, levels on a par with or higher than the most unequal OECD countries. The Gini coefficients are listed in Table 5.

The extent of the redistribution differs across the reform groups. From 1987–88 to 1993–94, Gini coefficients increased in the two intermediate reform groups by 43 percent (high intermediate) and 53 percent (low intermediate), as compared with 18 percent among the advanced reformers and 30 percent among the slow reformers. The highest Gini coefficients in the transition economies are among the low

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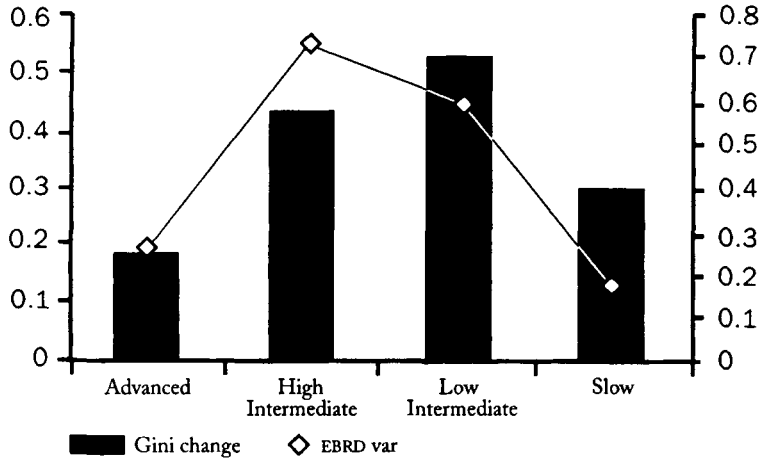

FIGURE 5
REFORM AND INEQUALITY

intermediate reformers, while the most advanced reformers have maintained the lowest levels of inequality. Russia stands out among the transition economies for having doubled its degree of inequality during the period.

Figure 5 relates the average changes in inequality across the reform groups to their average variances on the EBRD transition indicators. The curvilinear pattern is roughly similar. Though this evidence cannot support any causal claims, it does suggest an interesting relationship between the imbalances associated with partial reforms and increasing levels of inequality among the postcommunist countries.

The increase in inequality in the postcommunist transitions has been driven by a substantial concentration of incomes in the highest income group, though data on income concentration are less complete than for overall inequality. Table 5 reports the change (in percentage points) of total income share for the top income quintile between 1987–88 and 1993–94. The increase in income share for the top quintile in the intermediate reformers exceeds that of the advanced reformers with the exception of the Czech Republic. The top quintile in the high intermediate reformers increased its income share by an average of 7.8 points, while the average share in the advanced reform group increased by only 2.8 points. The two countries among the low intermediate group for which such data are available also show substantial increases in the concentration of income. Again, Russia stands out with a remarkable 20-point increase in the income share of the top quintile. With the

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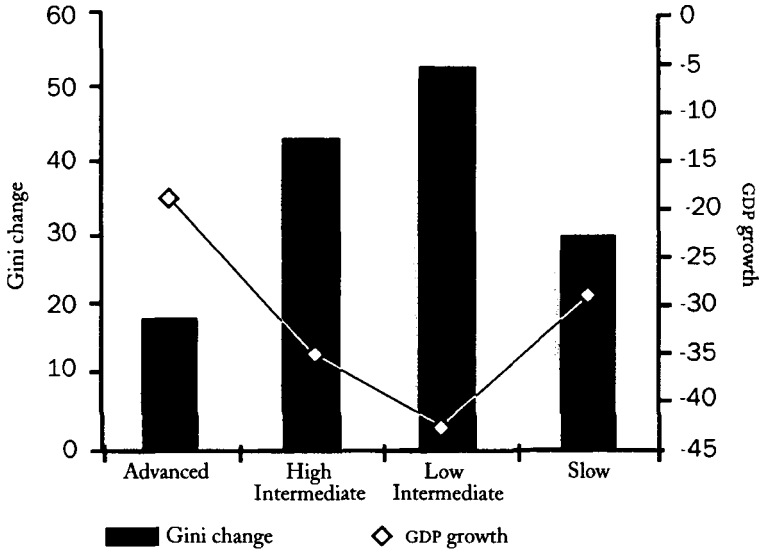

FIGURE 6
INEQUALITY AND GDP GROWTH

exception of Hungary and the Slovak Republic, all of the postcommunist countries have experienced a highly regressive redistribution of income since the start of the transition. Yet the evidence suggests that this redistribution reached a considerably higher magnitude in those countries that have maintained partial reforms.

The variation in the pattern of inequality and concentration among reform groups is closely matched by the cumulative output declines during the transition, the standard measure of the costs of reform. The last column of Table 5 lists the ratio of 1993–94 GDP to 1989 GDP for the postcommunist countries. The average cumulative decline in GDP for the two intermediate reform groups exceeds both the advanced and the slow reformers. By 1994 GDP had fallen by an average of 43 percent among the countries of the lower intermediate reform group and 35.2 percent among the countries of the high intermediate group. The advanced reformers suffered a much lower average GDP loss at 19.4 percent, while the slow reformers fell by an average of 28.3 percent. As Figure 6 suggests, the average declines in GDP across the reform groups match the percentage increases in inequality as measured by the average Gini coefficients for each reform group.

The limited evidence available on changes in inequality, the concentration of incomes, and GDP across the postcommunist countries

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supports the predictions of the partial reform model. Though postcommunist economic reforms have clearly generated high costs in the short term, the gains they have produced have been highly concentrated among a narrow group of winners. Countries that have adopted and maintained partial reforms have had the highest concentration of these gains, while at the same time experiencing the highest short-term costs among the transition economies. The net winners have gained more relative to the losers in partially reformed economies than have their counterparts among either the advanced or the slow reformers. Moreover, as the variances of the EBRD transition indicators demonstrate, these gains have been associated with imbalances in the adoption of reforms and the market distortions they create. If the correction of these distortions through further market reforms threatens to reduce the rent flows to the short-term winners, then they should be expected to oppose such measures as long as their share of the efficiency gains generated by further reforms does not exceed the lost rent flows. The winners have an incentive to maintain a partial reform equilibrium in order to maximize the concentration of rents in the economy. While existing analyses of the politics of economic reform tend to assume that the net winners constitute a political constituency in favor of sustaining and advancing market reforms, the partial reform model suggests that these winners could constitute a powerful obstacle to the steady advance of the reform process.

The main political implication of the partial reform model is clear: if the winners from partial reforms have a veto power over policy, then the transition should result in a partial reform equilibrium that concentrates gains among the winners at a high social cost.[41] Therefore, the primary political challenge of reform in this model is to restrain the net winners. Political systems that concentrate more power in the hands of the winners are more likely to preserve partial reforms over time. By contrast, political systems more open to the participation of the losers in the policy-making process should generate a greater dispersion of the gains of reform. If the initial rents in the early stages of reform are more thoroughly dissipated, then winners might find the efficiency gains from comprehensive reforms to be more attractive than the reduced rent flows from a partial reform equilibrium.

[41] Countries that adopt radical economic reforms from the very start are not necessarily immune from this problem. Even the most radical reform programs are composed of multiple elements each with a different time horizon giving rise to temporary market distortions and arbitrage opportunities that produce concentrated gains in the short term. Since the reform process does not consist of a single choice of reform programs, but rather is a sequence of numerous choices on separate dimensions of reform over time, there are still many opportunities for the short-term winners to scale back the intentions of radical reformers.

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It is difficult to measure with any precision the concentration of power in the hands of the short-term winners in the transition economies. One option is to try to measure the continued power of the former communist elite, since partial reforms are believed to benefit precisely those—such as state enterprise managers, collective farm chairmen, ministerial bureaucrats, and party officials—who are in a position to arbitrage between the highly regulated and subsidized state sector and the less constrained free market sector. It is possible to measure the remaining political power of the former Communist Party and its successor organizations in postcommunist political institutions. Alternatively, the extent of personnel turnover in government posts or key economic sectors from the communist era to the transition period could be surveyed. However, such measures would miss the influence of other groups benefiting from partial reforms, those whose gains are not necessarily linked to their positions in the previous communist system, such as new commercial bankers, investment fund managers, and a whole range of private entrepreneurs. In many postcommunist systems these actors have also made extraordinary short-term gains from distortions in the developing market economy and are believed to wield substantial political power.[42]

Another possible approach to this problem is to measure the extent to which postcommunist political systems are open to pressures from the short-term losers. This assumes that the greater the participation of the losers in the political process, the more constrained will be the power of the winners. Greater participation of the losers can be expected to check the power of the winners to veto reform measures that do not coincide with the latter's short-term interests. More importantly, politicians who face regular, genuinely competitive elections may be constrained from pursuing policies that concentrate gains to a narrow segment of the electorate while generating high social costs.

Figure 7 presents a scatterplot relating the level of democracy to the extent of economic reforms in the postcommunist countries. The economic reform scores are based on the EBRD's cumulative transition indicators for 1994.[43] The measure of democracy is based on the average of each country's annual score on the Freedom House index of political rights over the course of the transition.[44] The Freedom House index

[42] Dmitriev et al. provide a detailed analysis of the rents to newly created commercial banks directly related to the lack of macroeconomic stabilization in the context of a highly liberalized financial system and how quickly those rents declined as the economy began to stabilize. See Mikhail E. Dmitriev et al., *Rossiiskie Banki Nakanune Finansovoi Stabiliaztsii* (Russian banks on the eve of financial stabilization) (St. Petersburg: Norma, 1996).

[43] EBRD (fn. 8, 1994).

[44] Freedom House, *Freedom in the World, 1993–1994* (New York: Freedom House, 1994).

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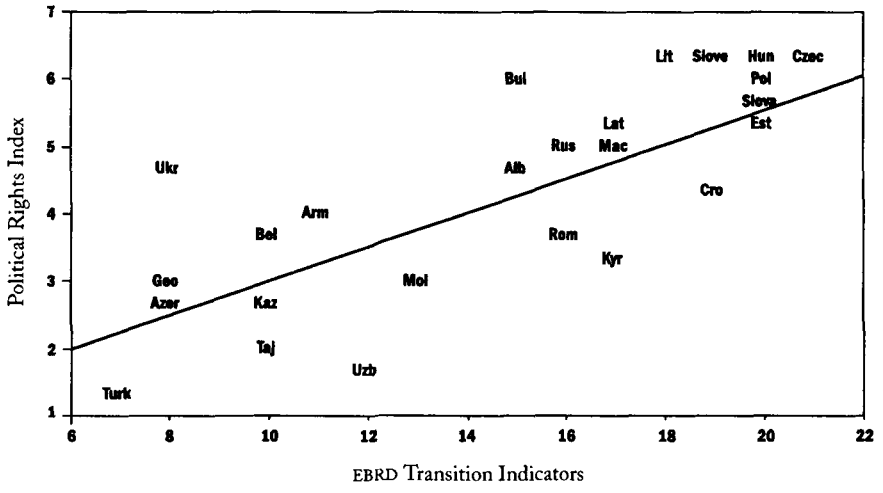

FIGURE 7
DEMOCRACY AND ECONOMIC REFORM

SOURCES: EBRD (fn. 8, 1994); Freedom House (fn. 44, 1990–94).

measures individual rights to participate freely in the political process, focusing especially on the political inclusiveness of the electoral system. The scatterplot reveals a strong positive correlation between political rights and economic reform (r = 0.78). More inclusive political regimes have adopted and sustained higher levels of economic reform than those with more restrictive political rights. Given that losers outnumber winners in the short term, we can assume that a more inclusive political regime gives the losers of the economic reform process greater opportunities to influence political outcomes than a less inclusive regime.

Another more specific proxy measure of the inclusiveness of the political system focuses on the size of coalition governments. As the number of political parties in a coalition government increases, the number of actors and groups whose agreement must be coordinated for effective policymaking increases as well.[45] This tends to weaken the concentration of power in the hands of any single political party or group. Broader coalition governments should have a lower risk of being cap-

[45] Tsebelis argues that increasing the number of parties in a coalition government increases the number of veto points in the policy-making process; see George Tsebelis, "Decision-Making in Political Systems: Veto in Presidentialism, Parliamentarism, Multicameralism and Multipartyism," *British Journal of Political Science* 25 (1995).

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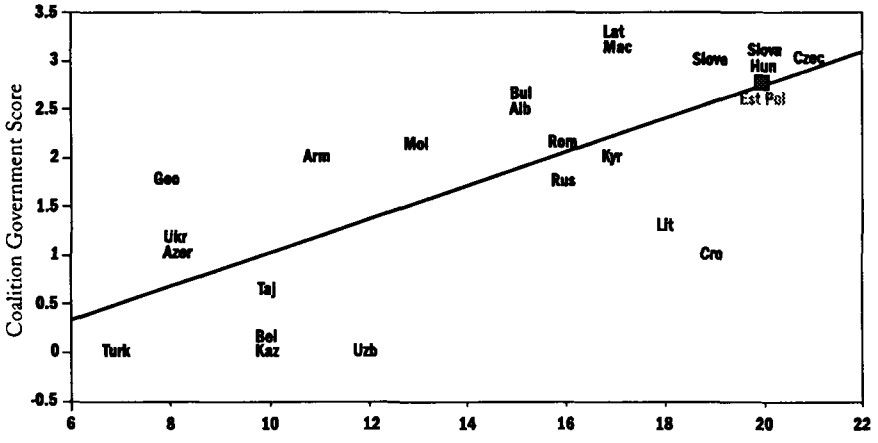

FIGURE 8
COALITION GOVERNMENT AND ECONOMIC REFORM

tured exclusively by the net winners of reform than should governments dominated by a single party. One way to measure the size of coalition governments is a simple scale developed by Roubini and Sachs in their studies of coalition governments and budget deficits in OECD countries.[46] Figure 8 shows a scatterplot of the relationship between the size of coalition governments and the sum of the 1994 EBRD transition indicators for each postcommunist country. There is a strong positive correlation (r= 0.72) between coalition governments and economic reform. As more political forces are brought into the policy-making process, governments appear to be more likely to adopt and sustain more comprehensive economic reforms.

Neither of the proxy variables—the extent of political freedoms or the size of coalition governments—directly measures the relative power of the winners and losers of economic reform over government policy-

[46] The scale is slightly modified for the postcommunist countries to include a category for single-party governments that explicitly restrict party competition. The scale is as follows: 1 = one-party authoritarian government (competition restricted); 2 = one-party majority parliamentary government or united presidential government; 3 = two-party coalition government or divided presidential government; 4 = three- or more party government; and 5 = minority government. Monthly coalition government scores were coded for each postcommunist country beginning with the first free election or the formal declaration of independence. A weighted average of the monthly scores is used in the scatterplot graph. See Nouriel Roubini and Jeffrey Sachs, "Government Spending and Budget Deficits in the Industrial Countries," *Economic Policy* 8 (1989); and idem "Political and Economic Determinants of Budget Deficits in the Industrial Democracies," *European Economic Review* 33 (1989).

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making. However, they do measure the extensiveness of political participation in the policy-making process. Political inclusion could alter the dynamics of the reform process in two possible ways. First, greater political inclusion could lead to a greater dissipation of the rents from partial reforms, as more groups demand their share of the short-term gains. As the private gains to specific groups decrease, the advantages of partial reforms over comprehensive reforms are also reduced. Second, the greater the degree of political inclusion in the decision making on economic reform, the less likely it is that the winners will be able to impose policies that bring them private benefits at a high social cost. Political inclusion can act as a constraint on the winners, undermining their capacity to hold the economy in a partial reform equilibrium.

Conclusions

Though many of the postcommunist countries have made tremendous strides toward the creation of a market economy in a remarkably short period of time, the costs of this transition have been substantial, even in the best of cases. To varying degrees, each country has faced some combination of high inflation, high unemployment, declining real incomes, decreasing state services, and increasing uncertainty—a mix of hardships that has produced a familiar pattern of advances and reversals of economic and political reforms in other regions of the world. Yet in contrast to the political dynamics of economic reform in these regions, the losers in the postcommunist transitions have not constituted the main political obstacle to the progress of reform. This paper has shown that it is precisely those countries in which governments have been most vulnerable to the losers' threat of an electoral backlash against reform that have adopted and sustained the most comprehensive reform programs. In contrast, governments insulated from electoral pressures have made, at best, only partial progress in reforming their economies. Moreover, economic reforms, once adopted, have rarely been reversed, even when the reform governments that initiated them have been ousted.

Though postcommunist transitions have not suffered the standard ex ante and ex post political obstacles to reform, they have faced an equally difficult set of challenges from an unexpected source. Actors who enjoyed extraordinary gains from the distortions of a partially reformed economy have fought to preserve those gains by maintaining the imbalances of partial reforms over time. Bankers who gained from financial liberalization have been a powerful force opposing macroeco-

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nomic stabilization. State managers turned private owners, who were the big winners from privatization, have prevented the creation of effective corporate governance structures and thus have delayed much needed enterprise restructuring. Rising financial-industrial conglomerates, reconstituted on newly emerging securities markets, have used their power to block new market entry. New entrepreneurs-cum-mafiosi, who have gained tremendously from the liberalization of domestic and foreign trade, have undermined the formation of a viable legal system to support the market economy. In each case the winners from an earlier stage of reform have incentives to block further advances in reform that would correct the very distortions on which their initial gains were based. In effect, they seek to prolong the period of partial reforms to preserve their initial flow of rents, though at a considerable social cost.

This paper has shown that the challenge posed by the winners is based on a set of assumptions about the costs and benefits of reform that differs from the assumptions of the conventional J-curve pattern upon which most existing models of the political economy of reform are based. The J-curve assumes that economic reforms generate concentrated costs in the short term and dispersed benefits over the long term. This paper has demonstrated that in the postcommunist transitions, economic reforms have tended to produce highly concentrated gains to particular groups in the short term, while dispersing the transitional costs of reform throughout the economy. Over time, the progress of economic reform is expected to dissipate the initial concentration of rents as the complementary elements of a market economy are all put into place. As a result, while the winners have acquired an early stake in the reform process, they have also developed a stake in the very distortions that impede the realization of the efficiency gains of a fully functioning market.

The recognition that the process of economic reform is threatened less by the net losers than by the net winners has important implications for our understanding of the political institutions that enable or impede economic reform. While conventional political economy models have emphasized the importance of insulating the state from the pressures of the losers through various forms of state autonomy, the partial reform model stresses the need to restrain the winners by increasing competition with other groups or by restricting their ability to veto reform measures unilaterally. In this view, expanding political participation to include the losers in the policy-making process could place limits on the concentrated political power of the winners and prevent them from sustaining a partial reform equilibrium. This paper has

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shown that postcommunist systems with a higher level of political participation and competition have been able to adopt and maintain more comprehensive economic reforms than states largely insulated from mass politics and electoral pressures.

The partial reform model offers an explanation for a number of puzzling aspects of the postcommunist transitions. It explains why some countries have maintained partial reforms over time, even though the short-term costs are higher and the overall gains are lower than those associated with more comprehensive reforms. It explains why postcommunist countries in which the net winners of the reform process appear to have significant political power over economic policy-making nevertheless have remained mired in a partially reformed economy. Finally, it provides a possible explanation for the strong link between democracy and economic reform among the postcommunist transitions that stresses the advantages of including the very groups that suffer from the transitional costs of reform.

One of the fundamental tenets of the politics of economic reform has always been to create a constituency of winners with a stake in sustaining and advancing the reform process. This has been a common strategy both for making the reforms irreversible and for building up the necessary political support for further reforms. Yet a comparison of the postcommunist transitions suggests that the winners can do far more damage to the progress of economic reform than the losers. As a result, the success of economic reform depends both on creating winners and on constraining them. Paradoxically, the most effective means of constraining the winners in the postcommunist transitions has been to guarantee the political inclusion of the very constituency that most existing political economy models seek to exclude: the short-term losers of reform.

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FIGHTING INFLATION IN A TRANSITIONAL REGIME
Russia's Anomalous Stabilization

By DANIEL S. TREISMAN*

I. INTRODUCTION

WHEN do countries suffering from high inflation adopt and successfully implement macroeconomic stabilization programs? This is one of the fundamental puzzles in the political economy of reform. Various theories suggested recently focus on a range of factors related to political and economic institutions, conflict over distribution, electoral politics, economic crisis, and the impact of uncertainty and asymmetric information.

Russia's experience in the early 1990s poses a challenge for almost all of these. After repeatedly failing to stabilize in 1992–94, the authorities finally managed in 1995 to implement a policy of stringent monetary and fiscal retrenchment, which kept monthly inflation rates falling to a value close to zero. Between January 1995 and September 1996 the monthly increase in the consumer price index dropped from 17.8 to 0.3 percent—and in August 1996 prices actually fell slightly. This occurred despite a constellation of inauspicious circumstances: the prior departure of most orthodox economists from the leadership, a divided government containing active agricultural and industrial lobbyists, a deeply unpopular president struggling with heart disease, a fragmented party system, a parliament dominated by opposition factions, a Soviet-era specialist at the head of a far-from-independent central bank, the pressures of a lively election season, and the immense expense of fighting a regional war.

The goal of this article is to examine the puzzle Russia's experience raises for theory. It seeks an explanation for the authorities' 1995 success and considers how this can be reconciled with existing knowledge and understandings of the politics of stabilization. The following sec-

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tion outlines hypotheses raised in works of political economy and economics about the conditions most conducive to the enactment and implementation of stabilization programs. Section III reviews Russia's experience fighting inflation in the early 1990s and examines whether existing theories can account for it. Section IV proposes an explanation that emphasizes particular ways in which the government managed from late 1994 to compensate groups that had previously benefited from inflationary policies—the stakeholders in inflation—and, in one case, to create incentives for them to support price stability. Section V concludes.

II. Explaining Macroeconomic Stabilization

A broad consensus exists both on the importance of restraining high and accelerating inflation and on the technical requirements for successful macroeconomic stabilization.[1] Yet even as the economic and social costs of inflation multiply, some governments choose not to adopt a stabilization program—or to abandon one prematurely. Scholars have suggested a number of hypotheses to explain such failures, along with theories about the conditions under which stabilization programs are likely to be implemented successfully.

Distributional Conflict

One set of theories traces delays in stabilization to divergent distributional interests of social or economic groups. Some—the winners—may derive positive net benefits from the credits, subsidies, and government spending that fuel inflation and have the political power to prevail over the losers. Alternatively, all may suffer net losses yet be unable to agree on how to share the temporary costs of disinflation. In either case, stabilization is made possible by some event or action that breaks the deadlock between opposing groups.

NEW POLITICAL LEADERSHIP

If inflation occurs because a politically dominant coalition benefits from inflationary policy, it will end if the proinflation coalition loses power. Two scenarios are often discussed. First, control over monetary and fis-

[1] See, for instance, Rudiger Dornbusch, Federico Sturzenegger, and Holger Wolf, "Extreme Inflation: Dynamics and Stabilization," *Brookings Papers on Economic Activity* 2 (1990) ; Stanley Fischer, "The Role of Macroeconomic Factors in Growth," *Journal of Monetary Economics* 32 (December 1993); Phillip Cagan, "Hyperinflation," in John Eatwell, Murray Milgate, and Peter Newman, eds., *The New Palgrave: Money* (New York: W. W. Norton, 1987); Olivier Blanchard et al., *Reform in Eastern Europe* (Cambridge: MIT Press, 1991), 1–5.

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cal policy might be won by a group of the losers from the previous policy. The new leadership of previous outsiders then sweeps away the accumulated privileges, handouts, and payoffs that fueled inflation in the past. According to Barbara Geddes: "The costs of liberalization to politicians are lower, and consequently the probability of sustained reform is higher, when the national executive . . . comes from a party or faction previously excluded from enjoyment of the spoils of state intervention."[2] A similar view informs Mancur Olson's account of stagflation caused by excessive control of the state by distributional coalitions.[3]

Second, it may not be previous losers who win power but orthodox, macroeconomically literate economists, who believe that any short-run political benefits of inflationary policies will be outweighed by future costs. Popular accounts of successful reform programs often focus on particular, determined individuals—a Balcerowicz or a Cavallo—who took over the central banks or finance ministries of inflationary countries and imposed austerity on their colleagues by the force of will and persuasion.[4]

BALANCE OF POWER BETWEEN FACTIONS

A second argument associates stabilization not with the decisive victory of one distributional coalition or leadership group but with the exact *opposite*—the failure of any one faction to triumph. Each different group within the political elite would like to direct the flow of inflationary benefits to its own clients. But when the struggle between such groups is evenly balanced, none can extract sufficient rents to outweigh the generally shared deadweight costs of inflation. They settle on a more economically efficient, low-inflation policy as a second-best compromise.[5]

ECONOMIC CRISIS

Third, a dominant coalition that was previously proinflation might change its position as efficiency costs increase. As price rises slip toward

[2] Geddes, "Challenging the Conventional Wisdom," in Larry Diamond and Marc F. Plattner, eds., *Economic Reform and Democracy* (Baltimore: Johns Hopkins University Press, 1995), 72. Though Geddes is studying economic liberalization not stabilization, the view of inflation as the result of incumbents' rent channeling implies that the first is necessary for the second. The association of stabilization with economic liberalization is supported by evidence in World Bank, *World Development Report 1996: From Plan to Market* (New York: Oxford University Press, 1996), 39.

[3] Mancur Olson, *The Rise and Decline of Nations* (New Haven: Yale University Press, 1982).

[4] See, for example, Jeffrey Sachs, *Poland's Jump to the Market Economy* (Cambridge: MIT Press, 1993), esp. 44–48.

[5] In a different context, Geddes argues that legislatures are more likely to enact reforms to enhance state capacity when "access to resources through clientele networks . . . [is] more or less equally divided among the larger parties in the political system." Geddes, *Politician's Dilemma: Building State Capacity in Latin America* (Berkeley: University of California Press, 1994), 184.

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hyperinflation, the impact on growth may come to outweigh any benefits groups derive from inflationary subsidies or credits. Shared interests dominate conflicting ones, and a zero-sum game acquires a mixed-motive structure. Various economists have argued that extreme economic crises enhance the chances of reform.[6]

UNCERTAINTY AND SOCIAL LEARNING

If, by contrast, the cause of inflation is not that one faction receives positive net benefits from it but that factions cannot agree on how to divide the temporary costs of stabilization, a breakthrough might occur if one group learned that the other was prepared to suffer greater bargaining costs. In this view, stabilization delay results from a "war of attrition" in which the competing parties feel out each other's bargaining positions.[7] Under perfect information, the loser would immediately recognize he could not win and would therefore capitulate. But because information about preferences is asymmetric, a costly discovery process is required. The only way for factions to establish which has a greater tolerance for the pain of delaying stabilization is to subject themselves to it in ever-increasing doses until one side yields.

Fernandez and Rodrik suggest another model in which stabilization might follow from a learning process.[8] In their interpretation, stabilization is sometimes delayed in a system of majority rule because even though a majority would benefit, individuals do not know ex ante whether they will be among the majority of winners or the minority of losers. This analysis implies that a majority for stabilization might emerge as different economic sectors and groups receive more reliable information about their likely fate under a stabilization program.

POLITICAL INSTITUTIONS

Some discussions of stabilization focus not on the distributional conflict, the economic crisis, or the uncertainty that characterizes periods of high inflation but on the particular structure of political institutions within which such conflicts and crises occur. Two lines of thought can be distinguished, with virtually opposite implications.

[6] Allan Drazen and Vittorio Grilli, "The Benefit of Crises for Economic Reforms," *American Economic Review* 83 (June 1993), 598; Blanchard et al. (fn.1), 2.

[7] Alberto Alesina and Allan Drazen, "Why Are Stabilizations Delayed?" *American Economic Review* 81 (December 1991).

[8] Raquel Fernandez and Dani Rodrik, "Resistance to Reform: Status Quo Bias in the Presence of Individual-Specific Uncertainty," *American Economic Review* 81 (December 1991).

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INSTITUTIONAL VACUUM AND "EXTRAORDINARY POLITICS"

Radical economic reforms, some suggest, are particularly likely to be enacted and implemented during the honeymoon period after the collapse of an old regime. According to Balcerowicz: "Any great political breakthrough in a country's history is followed by a period of 'extraordinary politics.'"[9] The fall of communism created that sort of institutional vacuum. At such times the very fluidity of political institutions, disorientation of interest groups, discrediting of the old elite, and the confusion and idealism of the public make it possible to push through major reforms.[10]

STRONG PARTIES AND UNITED GOVERNMENT

Some scholars contend, by contrast, that weak political institutions are precisely what *undermine* attempts at stabilization. Unconsolidated party systems are a common target. Stephan Haggard and Robert Kaufman argue that "fragmented and polarized party systems have posed major impediments to sustained implementation of reform" and suggest that the economic troubles of postcommunist Russia and Ukraine "provide virtual textbook examples of the consequences of fragmented and polarized party systems: prevarication, legislative stalemates, failed initiatives, and the continuing lure of quasi-authoritarian 'solutions.'"[11]

Weak governments are often blamed for lax macroeconomic policy. Coalition governments and representational rather than majoritarian electoral systems are associated in OECD countries with higher fiscal deficits and public debt.[12] Inflationary finance is a strategy chosen by governments with low capacity to extract tax revenues or mobilize their population.[13] Haggard and Kaufman also suggest that "centralized executive authority plays a pivotal role in . . . the initiation of comprehen-

[9] Leszek Balcerowicz, "Understanding Postcommunist Transitions," *Journal of Democracy* 5 (October 1994), 84–85.

[10] See the following essays in Åslund, ed., *Russian Economic Reform at Risk* (New York: Pinter, 1995); Sergei Vasiliev, "The Political Economy of Russia's Reform"; and Åslund, "The Politics of the Economic Reform: Remaining Tasks."

[11] Stephan Haggard and Robert R. Kaufman, *The Political Economy of Democratic Transitions* (Princeton: Princeton University Press, 1995), 370, 375.

[12] Nouriel Roubini and Jeffrey Sachs, "Political and Economic Determinants of Budget Deficits in the Industrial Democracies," *European Economic Review* 33 (May 1989); Vittorio Grilli, Donato Masciandaro, and Guido Tabellini, "Political and Monetary Institutions and Public Financial Policies in the Industrial Countries," in Torsten Persson and Guido Tabellini, eds., *Monetary and Fiscal Policy* (Cambridge: MIT Press, 1994), 2:213.

[13] Marina Arbetman and Jacek Kugler, "The Politics of Inflation: An Empirical Assessment of the Emerging Market Economies," in Thomas D. Willett et al., eds., *Establishing Monetary Stability in Emerging Market Economies* (Boulder, Colo.: Westview Press, 1995).

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sive economic reforms."[14] In such a view, stabilization is more likely to occur after a consolidation of the party system, after a broad coalition yields to a more ideologically united government, or after an increase in executive capacity.

THE ELECTORAL TIMETABLE

Other theories associate macroeconomic policy with the "political business cycle."[15] Such theories suggest that stabilization is more likely in the period right after an election than in the period before. While elaborated in the context of developed democracies—where their empirical support has been questioned[16]—such theories do seem at least partly to fit evidence from developing countries.[17] According to Stephan Haggard and Steven Webb: "The probability that a government will undertake a stabilization program declines significantly in election years and the preceding year."[18]

TIME HORIZON OF LEADERS

Whether the cause is upcoming elections, fear of coups d'états, or external threats, any factors that reduce leaders' time horizons will make them less likely to initiate stabilization plans that have short-term costs and long-run benefits. Leaders may cling to policies they know will be disastrous in six months or a year for lack of a better option. More unstable political systems may also have less efficient tax structures, leading politicians to rely more on seignorage.[19] Such a view implies that stabilization programs will be implemented only when politicians' expected tenure in office increases beyond a certain threshold.

Economic Institutions

Other work suggests that the nature of a country's monetary and fiscal institutions influences the prospects for stabilization.

[14] Haggard and Kaufman (fn. 11), 163.

[15] William Nordhaus, "Alternative Approaches to the Political Business Cycle," *Brookings Papers on Economic Activity* 2 (1989).

[16] James Alt and Alec Chrystal, *Political Economics* (Berkeley: University of California Press, 1983).

[17] Karen Remmer found that, while there was no evidence of increased spending in the preelection period in Latin American countries, stabilizations were more likely in the postelection period; Remmer, "The Political Economy of Elections in Latin America, 1980–91," *American Political Science Review* 87 (June 1993).

[18] Haggard and Webb, "What Do We Know about the Political Economy of Economic Policy Reform?" *World Bank Research Observer* 8 (July 1993), 149.

[19] Alex Cukierman, Sebastian Edwards, and Guido Tabellini, "Seignorage and Political Instability," *American Economic Review* 82 (June 1992).

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CENTRAL BANK INDEPENDENCE

Institutional insulation of the central bank from political pressures is thought likely to enhance its pursuit of stable money, to render its commitments credible, and thus to change expectations rapidly.[20] Some even claim that "in general, central bank independence leads to low inflation, irrespective of political institutions and budgetary problems."[21]

SINGLE BANK OF ISSUE

A condition for monetary stability too obvious to be mentioned often is that there not be numerous central banks competing to extract the rents of seignorage. If several bodies are authorized to emit (the same) monetary instruments, stability becomes a public good and collective action problems induce a scramble to beggar one's central banking neighbor. Such problems often occur when political divisions emerge within single-currency areas—for instance, in Yugoslavia and the USSR before their respective collapses.

EFFECTIVE TAX COLLECTION

Some economists emphasize the importance of effective tax-collection agencies for stabilization. While expenditure cuts are usually vital to controlling budget deficits and reducing the need for inflationary finance, this is extremely difficult if tax revenues are also falling sharply. When the costs of tax collection are particularly high, financing government expenditure through inflation may seem a relatively attractive alternative.[22]

INTERNATIONAL ASSISTANCE

Finally, various economists have argued that stabilization requires external aid—and often the pressure of conditionality—to fill financing gaps and make government commitments credible. According to Dornbusch et al.: "External support is a critical ingredient for stabilization; it helps mobilize confidence and thus offsets, at least partially, the fragility of a post-hyperinflation economy."[23] Jeffrey Sachs attributed

[20] See, for example, Sylvia Maxfield, "Financial Incentives and Central Bank Authority in Industrializing Nations," *World Politics* 46 (July 1994); Alex Cukierman, *Central Bank Strategy, Credibility and Independence: Theory and Evidence* (Cambridge: MIT Press, 1992).

[21] Grilli, Masciandaro, and Tabellini (fn. 12).

[22] See Cukierman, Edwards, and Tabellini (fn. 19).

[23] Dornbusch, Sturzenegger, and Wolf (fn.1), 61.

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Poland's successful stabilization in part to a $1 billion stabilization fund provided by Western donors, and he has criticized international institutions for failing to provide sufficient assistance to Russia.[24]

Yet, some economists argue the opposite—that the availability of external finance in fact *decreases* the chances of radical stabilization.[25] "The reason is that external resources reduce the costs both of reform and of doing nothing. . . . In addition, the prospect of aid can actually exacerbate the delay in stabilization, by inducing groups to postpone making sacrifices until aid actually materializes."[26] Probably all would agree that if aid is to facilitate stabilization, it must be allocated with strict *conditionality*—the donor must credibly pledge to continue aid only on condition that predefined reform targets are met.

III. The Russian Experience

Russia's troubled history of stabilization attempts can be glimpsed in the peaks and valleys of Figure 1. On three occasions monthly inflation was forced down by eight or more percentage points, only to rebound in subsequent months. The long tapering fall to the plateau of 1995–96 contrasts with previous sharp reversals.

Changes in the inflation rate follow quite closely changes in growth of M2 (the total of currency plus checking and time deposits held by household and firms), with a three- to four-month lag (see Figure 2). Increases in the money supply yielded bursts of price inflation, as expanded money balances worked their way through the system. The connection was particularly close in 1992–93; from late 1993 the lag seemed to lengthen to about six months. Some smaller jumps in M2 in 1995 and 1996, caused primarily by large central bank interventions in foreign-exchange markets, were neutralized before they could affect inflation when the bank sharply raised commercial banks' reserve requirements, thus immobilizing a portion of their monetary assets. Changes in the ruble supply also correlated with changes in the ruble/dollar exchange rate in the expected way, though the correspondence is not exact.

To observers of Russia, these graphs recall a series of episodes.[27] The

[24] Sachs, "Why Russia Has Failed to Stabilize," in Åslund (fn.10), 55.

[25] Gustav Ranis and Syed Akhtar Mahmood, *The Political Economy of Development Policy Change* (Cambridge, Mass.: Blackwell, 1992).

[26] Dani Rodrik, "Understanding Economic Policy Reform," *Journal of Economic Literature* 34 (March 1996), 30.

[27] For two detailed accounts, see Anders Åslund, *How Russia Became a Market Economy* (Washington, D.C.: Brookings Institution Press, 1995); and Boris Federov, "Monetary Policy and Central Banking in Russia," *East European Constitutional Review* (Summer–Fall 1994), 60–66.

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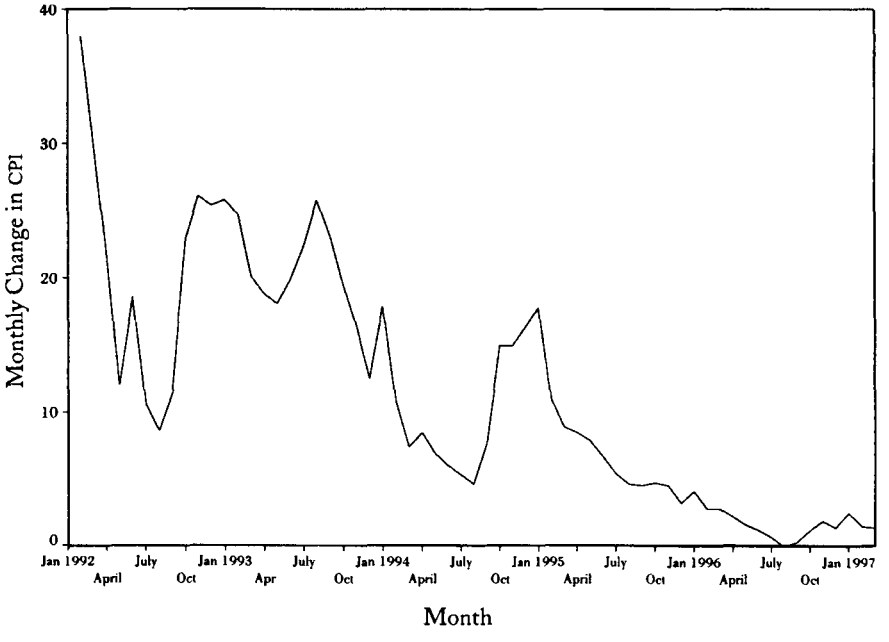

FIGURE 1
MONTHLY INFLATION RATE, RUSSIA
(1992–97)

SOURCE: *Russian Economic Trends* (various issues).

large drop in early 1992 reflects the postliberalization Gaidar shock therapy, which cut spending drastically. At the government's urging, the central bank increased banks' required reserves from 10 to 20 percent of assets and raised its refinancing rate from 20 percent in January to 80 percent in May, while managing to keep M2 growth below 14 percent a month. The result was a steady drop in inflation from January to August, when the CPI increased only 9 percent.

However, after April, when the government came under parliamentary attack, the tight stabilization policy was relaxed. Industrialists were brought into the government, and an experienced Soviet technocrat, Vasily Barchuk, became minister of finance. When the unpopular central bank chairman Georgy Matyukhin was replaced in July by Viktor Gerashchenko, who had supervised the USSR's state bank in 1989–91 as the country's monetary system collapsed, the new chief banker authorized a major infusion of credits to agriculture, industry, former Soviet republics, and the budget. Monthly increases in M2 soared to about 30 percent. Three or four months later inflation rates shot up.

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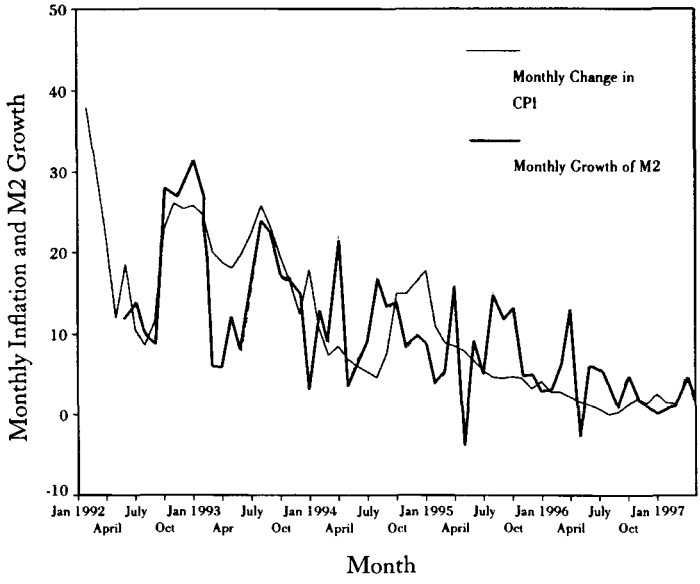

FIGURE 2
MONTHLY MONEY GROWTH AND INFLATION FOUR MONTHS LATER

SOURCE: *Russian Economic Trends* (various issues).

The second major attempt at stabilization came in mid-1993. After Yeltsin's surprise victory in the referendum of April 25—in which 58 percent of voters said they trusted the president and 53 percent supported his social and economic policies—monetary policy was tightened again. In May the new finance minister, Boris Fyodorov, managed to negotiate an agreement with the central bank on quarterly limits for credit creation. The bank was persuaded to start raising its refinancing rate, which had remained highly negative in real terms, and Russia stopped extending technical credits to other former Soviet republics still in the ruble zone.

Yet Fyodorov was not able to withstand the demands of the central bank and other parts of the government indefinitely. The agreed credit ceilings for the third quarter were "broken under pressure from the agricultural and northern lobbies," resulting in another jump in inflation in January 1994.[28]

After Yeltsin's showdown with the parliament in October 1993, Fyodorov and Gaidar made another effort to impose macroeconomic dis-

[28] Åslund (fn. 27), 198.

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cipline. For the first time since reforms began, the central bank's real refinancing rate became positive, reaching 5 percent in December. Surprisingly, policy remained tight in early 1994, even after the victory of opposition forces in the December parliamentary election and the resignations of Fyodorov and Gaidar.

However, laxity returned by midyear. In April credit began to grow rapidly; then, in the third quarter, the government issued large credits to agriculture and the northern regions, as in previous years. Real interest rates again became slightly negative. The ruble's value started to drop and then collapsed in the panic of Black Tuesday on October 11, plunging by almost 30 percent in one day.

The outlook going into 1995 seemed grim. According to Jeffrey Sachs, writing in late 1994, the history of stabilization efforts in Russia had been "a continuing story of missed chances, by the Russians and the West." Continual reversals had undermined the government's initial credibility. "The souring of the public's support for reforms; the flight from the currency; the growing tax evasion; and the war in Chechnya, all add to the difficulties of stabilization in 1995."[29] According to one of Yeltsin's *own* analysts, Mikhail Delyagin: "No large-scale, sensible measures have any chance of being carried out in 1995. It will be a year of momentum-driven processes."[30]

Yet despite apparent obstacles and ill omens, 1995 turned out to be Russia's year of stabilization. For the first time, the summer season of supplying northern territories and agriculture was not allowed to bust the budget. Though inflation did creep up a percentage point or two in a couple of months, the relative consistency of its drop since the end of 1994 is striking.

Tight monetary policy in 1995 had several aspects. Early in the year the central bank increased reserve requirements for commercial banks, raising total obligatory reserves from 15 trillion rubles in January to 33 trillion in August.[31] Real interest rates in 1995 averaged 35 percent. The government and central bank agreed in March to reduce the bank's crediting of the budget deficit, substituting government securities and foreign borrowing. At the same time the government managed to keep the deficit within planned levels, and in some cases even overfulfilled agreements with the IMF. The deficit for the year—48 trillion rubles, or 2.9 percent of GDP—was 21 percent below plan.[32] From July the gov-

[29] Sachs (fn. 24), 53, 62.
[30] *Izvestia*, January 6, 1995, 3.
[31] Joel Hellman, "Russia Adjusts to Stability," *Transition* 2 (May 17, 1996), 6–10.
[32] Interfax, February 19, 1996.

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ernment pledged to keep the exchange rate within a preannounced narrow corridor.

By June 1995 money in circulation was extremely low by international standards. The IMF's measure of money and quasi money—roughly equivalent to M2—had fallen to about 13 percent of annual GDP, compared with about 59 percent in the United States, 69 percent in Germany, 30 percent in Mexico, and 17 percent in monetarily troubled Argentina.[33] The authorities did not flinch even when tight monetary policy provoked a crisis in August, in which the default of a few banks on interbank credits set off a chain reaction of failures. In 1995, 225 banks had their licenses revoked, compared with just 88 in the previous four years.[34] In brief, after repeated failures, compromises, and retreats, Moscow implemented in 1995–96 a remarkably strict—and effective—program of fiscal and monetary austerity.

That it did so runs counter not just to expectations of Russian and Western economists but to practically all the hypotheses about the politics of stabilization outlined in Section II. Stabilization was not implemented by a government of vigorous new leaders and political outsiders suddenly launched into power. On the contrary, success came at a moment of relative continuity. Chernomyrdin had been prime minister for more than two years; Yeltsin, distracted from politics by two heart attacks, had been elected four years earlier. Nor was the government staffed by anything remotely like outsiders. Most observers considered it thoroughly penetrated by the main economic lobbies, from agriculture to the oil-and-gas sector.[35] Parliament, too, was viewed as increasingly a "machine for satisfying the interests of competing economic clans and political groups."[36]

Had orthodox macroeconomists been the key, stabilization would have occurred in 1992 under Gaidar or possibly in 1993 under Fyodorov. By 1995 only one bona fide orthodox economist remained in government—Anatoli Chubais, the former head of the privatization agency. At the central bank Gerashchenko had been forced out in late 1994 after Black Tuesday. But he was replaced by a former aide, whose

[33] All figures calculated from IMF, *International Financial Statistics* (Washington, D.C.: IMF, April 1996). Money and quasi money include currency outside banks, demand deposits, time savings, and foreign currency deposits other than those of the central government. For the United States and Mexico, figures are for money supply at the end of June 1995 as a proportion of 1995 GDP; for the others the (latest comparable) figures are for the same ratio as of June 1994.

[34] *Ekspert*, June 3, 1996,14–15.

[35] The deputy prime minister for agriculture, Aleksandr Zaveryukha, lobbied openly for aid to the farming sector, announcing once with no apparent sense of irony that "the country must feed its peasants" (*Segodnya*, March 28, 1995).

[36] *Izvestia*, December 6, 1994.

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appointment he reportedly demanded as the price of his resignation, and whom the press accused him of manipulating from behind the scenes.[37] An old Soviet-era financial bureaucrat, Vladimir Panskov, headed the Finance Ministry.[38]

Little evidence suggests that stabilization occurred because an overly balanced competition between the main social factions was driving down inflation rents for each. The gains from inflationary finance were quite narrowly concentrated on particular enterprises and sectors—favored banks, agriculture, certain large enterprises—while the costs were borne by most of the population. Favored enterprises did not stop demanding assistance. Nor did the agricultural lobby show any sign of putting away its pitchforks. Agrarian leaders threatened in May 1995 to strike, block deliveries, and obstruct food imports if they did not get credits for spring planting.[39] Coal miners went on hunger strikes to press for central aid, and the military also lobbied for cash. None of these groups seemed ready to tighten their belts in order to defeat inflation.

Successful stabilization did not come at the height of inflationary crisis, which might have mobilized politicians into action and citizens into willing sacrifice. Inflation rates, though high and volatile, had gradually dropped since the emergency of January 1992, as had public concern with price rises. Opinion polls did not suggest a growing sense of economic crisis. The percentage saying that the economic situation was "very bad" fell from 25.3 percent in March 1993 to 20.0 percent in November 1994 and 17.2 percent in May 1996. Though it did rise temporarily in March 1995 to 26.8 percent, it is hard to view this as a crisis.[40]

Did stabilization occur after one faction triumphed in a war of attrition, convincing other groups that it was determined to avoid bearing its share of stabilization costs? Evidence of this would be an observable change of position by the losing political faction or social group and a new willingness to suffer high unemployment, loss of state benefits, or other economic costs in the cause of lower inflation. Nothing like this

[37] *Segodnya*, July 20, 1995, 3.

[38] Fyodorov in March 1995 delivered a caustic assessment of this economic lineup: "What more can be done under Boris Nikolayevich [Yeltsin], who every day issues some sort of decision about spending money on the devil knows what? Or under Viktor Stepanovich [Chernomyrdin], who, together with Zaveryukha, will lie low and then—bang!—will blurt out something that costs 10 trillion. . . . Yes, this is incompetence, no matter how much you explain it to Chernomyrdin on graphs. They sat there and tried: Here's your multiplier, here's the money supply, a three-month lag, and still he doesn't believe it . . . he thinks they're making a fool of him. The result is plain to see" (*Nezavisimaya Gazeta*, March 17, 1995, 1, 3).

[39] *Segodnya*, April 6, 1995, 2.

[40] VTsIOM, *Monitoring obshchestvennogo mnenia* 24 (July–August 1996), 51.

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could be detected in Russia in 1995, however. No social group or political faction evinced any marked increase in concern with fighting inflation if this required sacrifices. An interpretation based on the Fernandez-Rodrik model—that stabilization occurred because a sufficient majority of powerful actors realized that they would be net winners rather than net losers—does seem quite plausible.[41] But one needs to know which powerful factions changed their position and what caused the change in expectations. I return to this below.

The 1995–96 period was definitely not one of extraordinary politics. According to Åslund, Russia's actual moment of extraordinary politics "began at the close of the abortive communist coup on August 21, 1991 and lasted until April 6, 1992 when the Sixth Congress of People's Deputies convened."[42] These months, in which Yeltsin stood at the pinnacle of his popularity and the parliament gave him emergency powers to rule by decree, coincided with the first stabilization failure. By early 1995 Yeltsin was universally unpopular.

Political parties were fragmented and polarized, and had little internal discipline or local membership. While the parties were too irrelevant to take a formal role in government, the cabinet was nevertheless often viewed as a "coalition" of economic interest groups, with Zaveryukha representing agriculture, Yuri Shafranik the oil industry, Chernomyrdin the gas sector, and Oleg Soskovets heavy industry. Boris Fyodorov described this government—containing Zaveryukha, Chubais, and Soskovets—as the partnership of "a swan, a crab, and a pike . . . all going in different directions."[43] One member of the government actually called on the Duma to reject aspects of the government's proposed 1996 budget.[44] As for the electoral schedule, it could hardly be more inauspicious from the point of view of political business-cycle pressures. An important parliamentary election occurred in December 1995, followed by the presidential election of June–July 1996.

Economic institutions may have offered slightly more reason for optimism, yet they hardly explain the outcome. A central banking law passed in April 1995 increased the central bank's independence in some

[41] Fernandez and Rodrik (fn. 8).

[42] Åslund (fn. 10).

[43] *Nezavisimaya Gazeta* (fn. 38). Hellman shows empirically that party fragmentation and coalition government did not prevent stabilization in various other postcommunist states. Joel Hellman, "Competitive Advantage: Political Competition and Economic Reform in Postcommunist Transitions," *British Journal of Political Science* (forthcoming).

[44] Peter Kirkow, "Distributional Coalitions, Budgetary Problems and Fiscal Federalism in Russia," *Communist Economies and Economic Transformation* 8, no. 3 (1996), 287–88.

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ways—specifying that a chairperson could be removed prematurely only in case of medical incapacity, personal request, or violation of federal laws regulating central banking; the law also prohibited the bank from directly crediting the government or buying government bonds at primary auctions. Yet in other ways it reduced the chairperson's independence, shortening her term from five to four years. The chairperson remained answerable to the parliament and was to be appointed by parliament on the president's nomination. Most importantly, the bank was headed through the early period of strictest stabilization measures by an unratified "acting chairperson" who could be fired at the president's whim—and was, in early November 1995.

In mid-1993 Fyodorov ended ruble-denominated technical credits to the non-Russian republics, and a monetary reform removed much externally located cash from circulation. Yet this did not prevent stabilization attempts from collapsing in 1993 and 1994. In 1995 momentum seemed to be in the opposite direction, toward reincorporating Belarus into the ruble zone, under terms that economists feared would worsen inflationary pressures.

Improved tax collection could not explain Russia's success: only 60 percent of assessed revenue was being collected in early 1996, prompting creation of an "emergency committee." Finally, international aid did help finance the budget deficit in 1995–96 more than in previous years. However, according to Fyodorov, in 1993–94 such external aid had *weakened* the reformist impulse and led to "wandering from the stabilization path."[45] And the pattern of IMF lending to Russia struck observers for its *lack* of conditionality in practice; as one article lamented, "With every broken Russian promise comes a will to lend an even greater amount next time round."[46]

In short, Russia managed to lower monthly inflation from 17.8 percent in January 1995 to 0.3 percent in September 1996, after several years of failed attempts and under a striking set of conditions: at the height of a busy election season and an expensive war; under a deeply unpopular and ailing president; and under a government that was disunited, almost bereft of orthodox reformers, penetrated by economic lobbies, unable to collect taxes, and under continual attack from a disorganized but mostly hostile parliament.

[45] Boris Fyodorov, "Macroeconomic Policy and Stabilisation in Russia," in Åslund (fn.10), 15.

[46] Stefan Hedlund and Niclas Sundstrom, "The Russian Economy after Systemic Change," *Europe-Asia Studies* 48, no. 6 (1996), 907. See also Randall W. Stone, "Russia and the IMF: Reputation and Unrestricted Bargaining" (Manuscript, Rochester, 1996).

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IV. Toward an Explanation

If existing theories offer no convincing explanation, what can account for the Russian experience? The argument of this article shares the assumption that the policies that cause inflation have distributional consequences, and that at rates of high but not accelerating inflation the benefits to the winners (subsidies, cheap credits, public spending) outweigh for them the costs of generally lower efficiency and growth. Successful stabilization requires a strategy to co-opt key stakeholders in the system of loose money and convert their stake into a noninflationary or at least a less inflationary alternative.[47] While simply expropriating the winners' inflationary rents is rarely politically feasible, it is sometimes possible to substitute less inefficient benefits for more inefficient ones and to disorganize the winners through selective accommodation.

Several economists have attempted to identify the winners and losers from inflation in Russia and to estimate their gains and losses. Inflation is a tax on money balances, redistributing wealth from creditors to debtors. According to one study, this inflation tax amounted to 31 percent of Russia's GDP in 1992.[48] Another study put the level at between 16 and 46 percent of monthly GDP between April 1992 and September 1993.[49]

The main loser from this redistribution, both studies agree, was the individual household, which kept much of its money balances in domestic currency or in savings accounts that paid interest far below inflation. As of April 1993 the state savings bank Sberbank still offered interest on demand deposits of 20 percent a year, while inflation was running at 23 percent a *month*. The inflation tax cost households an estimated 12 percent of GDP in 1992,[50] or an average 13.3 percent of GDP in the period April 1992–September 1993.[51] The government, surprisingly, was only a minor beneficiary, receiving an estimated 4 percent of GDP in 1992, since its benefit from central bank credits was balanced by

[47] The concept of "stakeholders" was used in an analysis of corporate takeovers in Andrei Shleifer and Lawrence H. Summers, "Breach of Trust in Hostile Takeovers," in Alan J. Auerbach, ed., *Corporate Takeovers: Causes and Consequences* (Chicago: University of Chicago Press, 1988); and it was first applied to Russian reform in Andrei Shleifer and Robert W. Vishny, "Privatization in Russia: First Steps," in Olivier Blanchard, Kenneth A. Froot, and Jeffrey D. Sachs, eds., *The Transition in Eastern Europe*, vol. 2, (Chicago: University of Chicago Press, 1994). For an elaboration of this and other arguments about reform in Russia within the language of stakeholders, see Andrei Shleifer and Daniel Treisman, "Economic Reform in Russia, 1992–1996" (Internal discussion paper, OECD, forthcoming).

[48] William Easterly and Paulo Vieira da Cunha, "Financing the Storm: Macroeconomic Crisis in Russia," *Economics of Transition* 2, no. 4 (1994), 453.

[49] Richard Layard and Andrea Richter, "Who Benefits from Cheap Credit in Russia?" *Communist Economies and Economic Transformation* 6, no.4 (1994), 463.

[50] Easterly and Vieira da Cunha (fn. 48).

[51] Layard and Richter (fn. 49).

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its losses on ruble-denominated assets.[52] Other former Soviet republics gained about 2 percent of Russian GDP that year because of cheap ruble credits.

The inflation tax had two major beneficiaries. The first was the commercial banks, which benefited in two ways. First, selected banks got the lucrative assignment of transferring centralized credits from the central bank to specific enterprises and sectors. In 1992 such directed credits amounted to an estimated 15.5 percent of GDP.[53] Officially, banks earned a 3 percent margin on these transactions. In fact, many were able to extract far more, soliciting bribes, delaying the credits for months and speculating with them, or directing them to enterprises conveniently co-owned by the bank or its managers.

A second way commercial banks profited from inflation was by paying negative real interest rates to their depositors. Through most of 1992 the commercial banks took in far more in household and enterprise deposits than they lent out on their own account (that is, not merely channeling centralized credits). They could use the surplus to speculate in goods or foreign currency, while paying depositors far less in interest than they were actually losing to inflation. Easterly and Vieira da Cunha estimate that the financial sector received about 8 percent of Russian GDP in 1992 through the inflation tax.[54]

Several factors probably explain why commercial banks were able to extract this large rent from depositors. In part, the banks benefited from the temporary lack of competition. Amid the chaotic conditions of market transition, enterprises faced a restricted choice of local banks that could service their accounts and they were probably willing to pay a premium for the security of dealing with a familiar partner. At the same time, depositing money at negative real interest rates was probably one way that enterprises paid kickbacks beyond the official 3 percent to banks in return for locating centralized credits. Such deposits may also have served as a means of "nomenklatura privatization," in which directors placed funds from state enterprises in banks they or associates secretly owned. The lower the interest paid, the greater the profit to the director and his partners.

In part, though, the rents commercial banks earned on their deposits derived from government policy. First, at the banks' repeated request, the government enacted protectionist measures to limit competition

[52] Easterly and Vieira da Cunha (fn. 48).

[53] Philippe Le Houerou, *Fiscal Management in the Russian Federation* (Washington, D.C.: World Bank, 1995), Annex 1, Table A1.

[54] Easterly and Vieira da Cunha (fn. 48).

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from foreign banks.[55] Entry was heavily restricted, and in November 1993 Yeltsin signed a decree actually prohibiting foreign banks from opening accounts for Russian clients. Some Russian bankers even lobbied for protection from domestic competition, demanding stricter registration for new commercial banks.[56] Second, rates on household deposits were strongly influenced by those of the gigantic Sberbank, which the government actively discouraged from raising rates.[57] Third, tax policy created an incentive for banks to keep their deposit rates low, since they were taxed not on actual profits but on the profits they would be making if they paid the central bank discount rate plus 3 percent. The higher their deposit rates, the greater their proportional taxes.

The second major beneficiary of the inflation tax was the set of enterprises and economic sectors fortunate enough to receive centralized credits at negative real interest rates. On the whole, the enterprise sector suffered losses because money held in its bank accounts was devalued. The two studies estimate such losses at 19 percent of GDP in 1992 and 12.6 percent in the period April 1992–September 1993. But those enterprises or sectors that received the credits or subsidies fueling inflation obviously received a counterbalancing benefit.

The IMF estimates that of the 15.5 percent of GDP handed out as negative-real-interest-rate central bank credits in 1992, 7.1 percent went to agriculture, 2.2 percent to the fuel and energy sector, 1.6 percent to the northern territories, and 2.8 percent to industrial enterprises. In addition, the government issued its own subsidized credits to assist insolvent enterprises and finance investment and conversion in the defense industry. While these were theoretically repayable, the default rate was high. Even if an enterprise repaid its debt, the interest rate it was charged—often half the highly negative Central Bank discount rate—meant that it received a huge inflation-tax transfer. Estimates of gains from cheap credits reaped by favored enterprises come to 16 percent of GDP (Easterly and Vieira da Cunha) and 26 percent (Layard and Richter), though the latter figure probably includes the share of the commercial banks.[58]

Although such figures should be considered rough estimates, they still suggest a consistent and striking picture. The main stakeholders in

[55] *Finansovie Izvestia*, July 12–18, 1993, 1.

[56] *Kommersant'*, July 12–18, 1993, 5.

[57] Jeffrey Sachs and David Lipton, "Remaining Steps to a Market-Based Monetary System in Russia," in Anders Åslund and Richard Layard, eds., *Changing the Economic System in Russia* (London: Pinter, 1993), 138. Since Sberbank occupied such a large share of the market and competition in most regions was sparse, its deposit rates acted as a focal point for collusion by potential competitors.

[58] Easterly and Vieira da Cunha (fn. 48); Layard and Richter (fn. 49).

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the politics of inflation in Russia in 1992–93 were commercial banks and enterprises—largely in agriculture, fuel and energy, the northern territories, and insolvent parts of industry such as the defense sector—that received low-rate centralized credits. These groups' profits from inflation constituted a considerable share of annual GDP. But when Russia finally stabilized in 1995, they lost these benefits. How were they persuaded or compelled to give up this money?

The Commercial Banks

Benefits from the inflation tax fueled a commercial banking boom in Russia in the early 1990s, and major bankers left little doubt in 1992–93 that they wanted the rents to continue. At the congress of the Association of Russian Banks in May 1992, an animated crowd of bankers confronted the unfortunate representative of the central bank sent to address them, demanding an immediate infusion of 1.5 trillion rubles of credit—an amount he claimed would boost prices by three to seven times.[59] A week or two later the association's president, Sergei Yegorov, accused the central bank in an interview of conducting a "policy of genocide" against the banks.[60]

Though they did not put it in such terms, the commercial banks were at this time among the loudest opponents of the government's stabilization strategy. Even banks with solid promarket credentials joined in the chorus. It was Vladimir Vinogradov, head of the respected, newly founded Inkombank, who led the attack against the central bank representative at the 1992 banking congress. Throughout the spring and summer bankers joined directors of inefficient industrial and agricultural enterprises in pressing for additional soft credits. The results were the capitulation of the government and the central bank and ultimately Yeltsin's surrender of Gaidar in December.

Why was the government vulnerable to pressure from commercial bankers? (Although the central bank was often blamed for the credit expansion of late 1992, only 14 percent of its credits that year were issued on its own initiative.)[61] The bankers' greatest strength was that in pressing for soft credits on behalf of the agricultural and industrial managers, they represented a relatively cohesive group that was highly conscious of what it stood to gain, while the main victims of inflation,

[59] Author's observation, May 13, 1992. The central bank representative was Sergei Ignatiev.

[60] *Moskovskie Novosti*, May 31, 1992, 14. Besides criticizing high interest rates and reserve requirements, the bankers also accused the central bank of inefficiency in its clearing system and of overzealous regulation.

[61] *Commersant*, February 16, 1993, 4.

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the population, were disorganized and largely unaware of the relationship between soft credits and price rises. No pressure group in favor of stable money existed to balance the demands of the proinflation lobby. While associations of pensioners hurt by inflation did form, their goal was not to cut credit emission but to secure additional grants for themselves.

The commercial banks, meanwhile, could offer members of the government cash to finance electoral campaigns and well-remunerated positions once they left office. (The 1992 minister of foreign economic relations, Pyotr Aven, for instance, resurfaced later as a director of Alfabank.) Equally important, the bankers could threaten to bring the economy to a standstill by increasing delays in payments. Publicly, commerical banks attacked the central bank for inefficiency in making payments, but in practice many benefited by speculating with funds en route between clients.

If opposition by major bankers, along with that of inefficient enterprises and sectors, explains the failure of early government attempts to stabilize, why did the large banks not oppose the government more vigorously in 1994 as the central bank's rate rose above inflation and credits dried up? And why were they less forceful in 1995, even as the banking sector approached a major crisis? Political influence of the major bankers had never been higher. Many were active in organizing the incumbents' 1995 and 1996 electoral campaigns, and one, Vladimir Potanin, even became a deputy premier after Yeltsin's reelection.

The argument of this article is that while reducing the commercial banks' inflationary rents by raising the discount rate, the central bank and government were simultaneously creating a new, less inflationary opportunity for many to earn enormous profits. This compensated them for the disappearance of other opportunities tied to inflation and changed their objectives in lobbying the government.

In May 1993 the Finance Ministry launched the first short-term state securities (GKOs)—treasury bills with a maturity of six weeks to twelve months. Three years later the government securities market had grown to about 160 trillion rubles ($31 billion).[62] Sold in primary auctions by the central bank, securities could then be traded on secondary markets in Moscow, St. Petersburg, and other cities. Treasury bill markets are known to be an important financial tool in macroeconomic stabilization: they provide a source of funds to cover the budget deficit. But in Russia such markets also served a *political* goal that helped sustain stabilization.

[62] Daniel Treisman, "Contemplating a Postelection Financial Crisis," *Transition* 20, October 4, 1996, 30–33.

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Investors could earn huge positive returns by lending the state short-term money. For most of 1994–96, rates on GKOs far exceeded inflation, rising at one point to more than 150 percent a year in real terms. And profits from dealing in GKOs were tax free. Such high rates might be viewed as risk premiums given uncertainty about the government's commitment to the market and about future inflation rates. But since the risk could be fully or partly eliminated by advance information of changes in government policy, this in effect served as a barrier to protect rents in the market for those dealers sufficiently close to the financial authorities to be sure they would be informed.

Not surprisingly, the main investors in government securities were none other than the major commercial banks. Sberbank was by far the largest holder, with more than 40 percent of the total in mid-1996. It was followed by Vneshtorgbank, another bank with a majority state ownership, and by a string of the largest independent commercial banks. Small dealers were believed to hold at most 10–30 percent of the market. (See Table 1.)

The Ministry of Finance complained about the cost of paying such high yields. But by restricting access to the primary GKO auctions to preselected dealers and by sheltering the market from foreign investors, the state in fact prevented broader competition from driving the rates down. From the start, primary issues were limited to a group of authorized dealers, initially numbering twenty-six.[63] Analysts saw evidence of covert coordination by the major bidders to keep prices down and yields high.[64] At the same time, one analyst complained, "ordinary Russians are effectively shut out of the market, as are other small investors."[65] Nonresident investors, while permitted to buy a certain share of each issue at the primary auction, could not sell them on the secondary market, and maximum profits were capped at a rate far below that of Russian dealers.

For major banks with access to this market, high GKO profits helped make up for the rents they were losing as inflation fell. Between late 1994 and May 1996 investments by commercial banks in state securities grew by eight times, and in the first half of 1996 the ratio of profits to assets of the hundred largest banks rose from 3.37 to 4.03 percent.[66]

Figure 3 shows the rate of after-tax profits that commercial banks were able to earn in 1992–93 from paying negative real interest rates on

[63] *Commersant*, March 2, 1993.
[64] *Kommersant'*, April 5, 1994, 52.
[65] "T-Bills Get Riskier," *Business in Russia* 60 (October 1995), 88–89.
[66] *Ekspert*, October 7, 1996, 30.

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TABLE 1
BANKS WITH LARGEST HOLDINGS OF STATE SECURITIES
(APRIL 1, 1996)

Bank	*Holdings of Main State Securities (Billions of Rubles)*	*Holdings as % of Total Assets*
1. Sberbank	39,957	44
2. Vneshtorgbank	4,567	22
3. NRB	1,995	36
4. Inkombank	1,576	12
5. Mosbiznesbank	1,215	16
6. Imperial	1,102	11
7. Avtobank	942	18
8. MFK	874	11
9. Agroprombank	785	10
10. Promstroibank	730	14
11. Rossiisky Kredit	725	9
12. Mezhkombank	598	17
13. Stolichny BS	597	9
14. MMB	585	10
15. Neftekhimbank	530	23
16. Menatep	475	6
17. Promstroibank (St. Petersburg)	434	16
18. Gazprombank	376	25
19. Oneksimbank	351	3
20. Vozrozhdenie	348	9

SOURCE: *Interfax-AiF*, 25–6 (51–2), June 24–30, 1996, 26

deposits and using the funds to speculate in goods or currencies. The broken line measures the difference between the monthly inflation rate and the average monthly deposit rate paid by Moscow banks, multiplied by 0.7 to adjust for the 30 percent tax on banking activities. These inflation rents, shaded with horizontal lines, disappear in late 1993, when the interest rate finally climbs above inflation, returning briefly in late 1994 as inflation surges again, only to disappear amid the monetary tightening of early 1995. The unbroken line on the same graph measures the real rate of return that banks could earn by buying state securities at primary auctions (an unweighted average of the monthly rates of return on three-month and six-month GKOs minus monthly inflation). The GKO profit rates, indicated by the solidly shaded areas, emerge and grow as the inflation rents disappear. Banks could go from earning inflation rents to earning extremely high profits on government securities.

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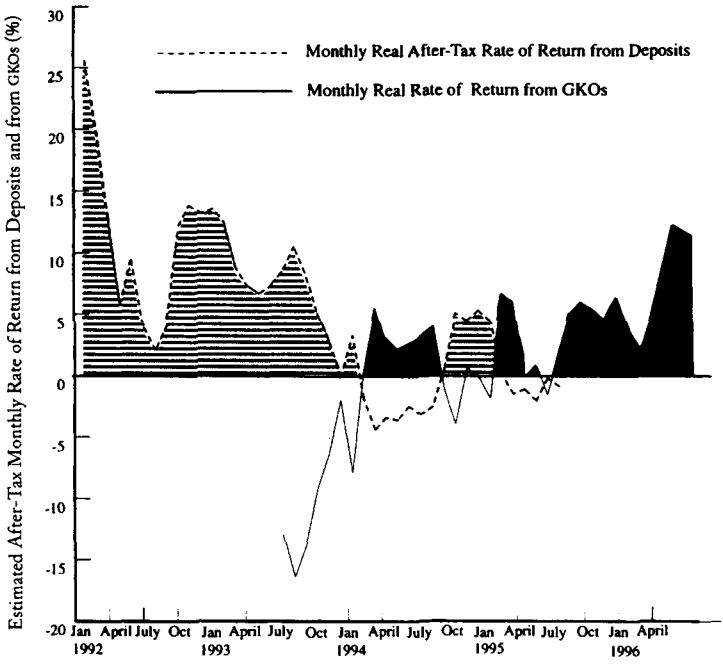

FIGURE 3
PROFIT OPPORTUNITIES OF COMMERCIAL BANKS

SOURCE: Author's calculations; see text for details.

Both systems—inflationary finance and high-yield government securities—involved a transfer to the banks from other parts of the economy. In the first case, it was immediate through the inflation tax; in the second, high GKO prices increased the amount of state debt that would eventually have to be paid back with tax revenue. But the systems created opposite incentives for the banks. If they were *borrowing* at fixed, low interest rates and speculating in commodities or currencies, any additional increase in inflation served to increase the profit margins for banks. But if they were *lending* to the state (buying treasury bills) at artificially high fixed interest rates, then any additional increases in inflation would reduce their profit. The banks that made this transition had been transformed from a proinflation lobby to an anti-inflation one.

Figure 4 shows the way this gradually changed the origin of estimated banking profits. The lightly shaded bars on the left represent an estimate of the value of profits the commercial banking sector earned from (1) its 3 percent margin on centralized credits and (2) speculating in commodities or currency with the funds of its depositors. The darkly

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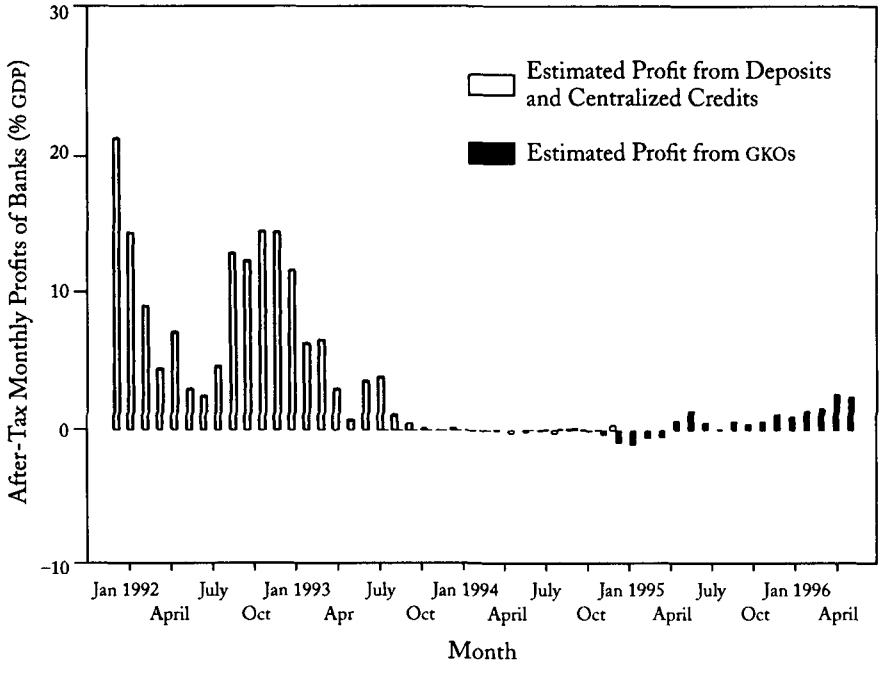

FIGURE 4
ESTIMATED AFTER-TAX MONTHLY PROFITS EARNED BY COMMERCIAL BANKS[a]

[a]The monthly inflation profits are calculated by multiplying the banks' surplus of ruble deposits over lending by the difference between the average deposit rate and the CPI, adding estimated profits from 3 percent margin on centralized credits, subtracting the 30 percent tax, and expressing as a percentage of monthly GDP. The monthly GKO profits are calculated by summing for each month the real profits from all issues maturing that month and expressing this as a percentage of monthly GDP. The real profit on each issue is the amount received at redemption minus the amount paid, the latter adjusted for change in the CPI during the period until maturity.

shaded bars to the right show the estimated profits earned by the major dealers on the state securities markets. These profits gradually pick up after the inflation rents decline.

In 1992–93, one survey of commercial bank managers found that 92 percent of banks participated in distributing centralized credits, and more than two-thirds believed the successful functioning of their bank depended on such loans.[67] By mid-1994 the centralized credit market had dried up, and large banks were replacing currency and commodity speculation with trade in short-term treasury bills.[68] Among the vari-

[67] "Commercial Banks: Recent Trends," *Russian Economic Barometer* 2 (Summer 1993).
[68] *Izvestia*, July 7, 1994, 1–2.

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ous resolutions about relations with the financial authorities adopted by the Association of Russian Banks at its 1996 annual meeting, not one included a demand for more centralized credit.[69]

This change did not suit all banks. It favored those large and well connected enough to play the GKO market with relatively low risk, and it harmed those most dependent on centralized credits. In some cases, new banks emerged as the major GKO dealers, and some former cheap-money-channeling banks sank into obscurity. In other cases a bank shifted smoothly from borrowing and speculating to crediting the government. In any case, a sufficient support base of favored and wealthy banks was kept intact.

Why did the central bank, which funded bonuses to employees in part from profits earned on subsidized centralized credits, itself agree to raise its refinance rate in late 1993 to positive real levels? One reason may lie in the Finance Ministry's at first sight surprising decision to appoint the central bank's Moscow Interbank Currency Exchange as auctioneer of the GKOs. The exchange earned commissions of .05 percent on sales of the securities. As the volume of such sales rose, the profits received by the central bank's exchange from such auctions also rose dramatically. And the lower inflationary expectations were, the higher the sale price of GKOs and the higher the commission earned by the exchange. Probably even more important was the central bank's ability to profit from trading GKOs on the secondary market.

One other way the government enlisted certain major banks in a coalition against inflation was the controversial "loans for shares" auctions of late 1995. In carefully controlled tenders, favored banks were permitted to win contracts to provide credits to the government budget on the security of large tranches of shares in valuable raw materials and other companies. The piquancy of these deals was that although the winning bloc of credits was only a fraction of the value of the shares at stake, it still was considerably more than the cash-starved government could be expected to raise by the time the credits came due. High inflation would have reduced the real value of this debt and made it easier for the government to repay with devalued rubles rather than yield the shares.[70]

The Subsidized Enterprises and Sectors

If the banking system had been given incentives to adjust to a low-inflation order by late 1993, the second major beneficiary of inflationary

[69] "Shestoi Syezd ARB, *Den'gi I Kredit* 4 (1996), 21–22.

[70] For a discussion of the details, see Hellman (fn. 31).

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policy had not, and it was this constituency that undermined the struggle against inflation in 1994. The latter group comprised those enterprises—mostly in agriculture, fuel and energy, parts of industry, and the northern territories—fortunate enough to receive cheap credits and subsidies. These sectors, supported by the commercial banks, had managed to torpedo the government's tight monetary policy of 1992. In 1995 all of these except parts of the fuel and energy sector needed subsidies even more intensely. Among agricultural enterprises, 57 percent were insolvent. Yet credits and subsidies to them were dramatically reduced. Agricultural and energy workers threatened and carried out strikes—but somehow their threats were more isolated and less alarming. The mass unemployment, bankruptcies, and social unrest previously feared did not materialize. And despite calls of agricultural leaders for additional soft credits, the Agrarian faction in parliament actually voted for the government's 1995 budget proposal, by 48 to 1.[71]

One of the ways enterprises adjusted to tight money, both in 1992 and in 1994–95, was to run up unpaid bills to their suppliers. These had been the pretext for the injection of centralized credits in mid-1992. But in 1994–95, despite huge arrears, the government did not cover them by increasing the money supply.

A hint of an explanation can be glimpsed in the structure of the accumulating arrears, which increasingly victimized the energy sector. As of August 1994 the electroenergy sector was owed 3.1 trillion rubles more by its customers than it owed its suppliers, and the fuel sector 4.4 trillion rubles (see Table 2). By May 1996 the net debt to electroenergy had risen to 27.3 trillion rubles, and that to the fuel sector had risen to 14.8 trillion rubles. In effect, these two sectors had extended a net credit of about $4.9 billion to their delinquent clients. Furthermore, there was serious doubt about whether this would ever be paid. Of the debt to the electroenergy sector accumulated by May 1996, nearly two-thirds was overdue.

Meanwhile, other sectors of the economy—in particular, parts of heavy industry and agriculture—were amassing large net debts to their suppliers. During the same period the machine-building sector's net debt to suppliers grew by about $1.6 billion. Comparable figures were not readily available for agriculture. But during 1995 agriculture's payables (also including debt to banks and the budget) minus receivables increased by about 12 trillion rubles ($2.3 billion). In short, the

[71] *Omri Daily Digest*, February 27, 1995. Zhirinovsky's LDP also voted overwhelmingly for the government's proposal.

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TABLE 2
FINANCIAL POSITION OF KEY INDUSTRIAL SECTORS
(AUGUST 1994 AND MAY 1996)

Sector	*Net Credit to Clients[a] Aug. 1994*		*Net Credit to Clients May 1996*		*Increase in Net Credit to Clients 8/94–5/96*
	(Trillions of Rs)	*(Billions of U.S. $)*	*(Trillions of Rs)*	*(Billions of U.S. $)*	*(Billions of U.S. $)*
Electricity	3.1	1.4	27.3	5.4	4.0
Fuel	4.4	2.0	14.8	2.9	0.9
Machine building	3.3	1.5	−0.7	−0.1	−1.6

SOURCES: August 1994: calculated from *Russian Economic Trends* 3, no. 4 (1994), 36; May 1996: calculated from *Russian Economic Trends* 5, no. 2 (1996), 43.

[a] Net credit to clients = receivables − debt to suppliers; totals converted at currently prevailing exchange rates.

nonpayments crisis in this period masked a covert redistribution of credit. Nearly $5 billion of credit was extended after the fact by the electricity and fuel sectors to their clients, while machine building and agriculture were running up net debts worth billions of dollars.[72]

As of mid-1996 the gas monopoly Gazprom was being paid for only 23 percent of the gas it supplied. Total debt to the company came to 48.3 trillion rubles ($9 billion) in October. Its major debtors included the cities of Moscow and St. Petersburg and the regions of Nizhny Novgorod and Tatarstan. Gazprom, according to one analyst, "in fact is crediting consumers, supplying gas at relatively low prices and without guarantee of payment."[73]

Why did it do so? There is little evidence to suggest the motive was philanthropy. Bosses in the fuel sector criticized their clients vociferously for not paying their bills and in some cases temporarily cut them off. In part, however, shutoffs were prevented by government regulations, and in early 1996 Yeltsin set up a special state commission under Soskovets to ensure supplies of fuel and energy during the preelection period. According to Soskovets, this commission was authorized "to redistribute energy resources at the disposal of government bodies and of enterprises, regardless of their form of ownership."[74]

[72] For comparison, the 1995 budget included planned total spending of 40.5 trillion rubles (about $7.9 billion) on industry, energy, construction, agriculture, and fishing; see Kirkow (fn. 44).

[73] *Delovie Lyudi*, May 1996, 146–48. The oil company Yukos was being paid for only 60 percent of its deliveries in early 1995; *Segodnya*, March 21, 1995, 3.

[74] *OMRI Daily Report*, May 30, 1996.

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However, such sticks were accompanied by carrots. One positive inducement can be seen in the energy companies' own balance sheets. While the fuel and electroenergy sectors were extending net credit of 42 trillion rubles ($8.3 billion) to other parts of the economy by early 1996, they were themselves amassing a huge debt to the budget in unpaid taxes. In 1995 tax arrears for these two sectors rose by 13.7 trillion rubles, which compensated them to some extent for their leniency toward delinquent clients.

The list of the biggest tax debtors as of August 1995 reads like a catalog of the most reputable oil, gas, and energy corporations.[75] Divisions of Lukoil and Gazprom—both of which were among the ten companies with the highest profits in 1994—appear alongside major electricity generators. Fifty enterprises owed about half the debt to the federal budget. Among these, the fuel and energy complex accounted for 73 percent of the debt.

The pattern suggests an implicit bargain between the central government and the energy sector: the state would tolerate tax arrears so long as the energy sector continued to supply even delinquent clients, thus preventing too rapid a collapse of key employment-providing enterprises and service-providing public sector organizations. Of the growth in budget arrears, more than 90 percent reportedly resulted from state-sanctioned exemptions.[76]

This fit into a broader trend of government efforts to use the energy sector to subsidize other parts of the economy. Households benefited from large energy subsidies. As of mid-1995 consumers paid about $1.50 per thousand cubic meters of gas; industrial users paid $51. As subsidized central bank credits were phased out, producers were "persuaded" by the government to "ship fuel and fertilizer on credit [to farmers], knowing there was little chance the farmers would ever pay."[77] Such shipments were known as "commodity credits." The oil company, Lukoil, had 1.2 trillion rubles in tax arrears waived in return for supplying farms and defense installations with fuel. Electricity prices were temporarily frozen in August 1995, as were those of gas and railway transport in October.[78]

This set of implicit bargains had one important macroeconomic advantage. It continued the subsidization of chronically unprofitable but politically important enterprises and public services, without requiring

[75] *Ekspert*, October 24, 1995, 32.
[76] *Ekspert*, June 3, 1996, 16–19.
[77] Peter Rutland, "Russia's Energy Empire under Strain," *Transition*, May 3, 1996, 6-11.
[78] Ibid.

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either increased monetary emission or a more effective tax service. Thus, it made a virtue of the state's weakness and had a far smaller inflationary impact on prices than an extension of new credits would have. Price controls on energy may even have temporarily lowered inflation. Though the tax breaks necessary to compensate energy enterprises increased the deficit, this was far less inflationary than paying subsidies up front with newly printed money—which would have immediately raised inflationary expectations, prompted competitive lobbying from other interest groups, and provoked a harsh reaction from the IMF, which was itself helping to finance the deficit with its EFF loan.

Liquidity was injected into illiquid parts of the economy not in the form of money but in the form of fuel. This helps explain why the extreme financial tightening of 1995 had such a slow and limited impact on the unemployment rate, which remained in mid-1996 at 9.1 percent, well below the rate of France. Bankruptcies were still extremely rare—only 469 enterprises were declared bankrupt in 1995—compared with tens or hundreds of thousands in Western countries.[79] The economics columnist Mikhail Leontev credited Russian legal scholars with "a peculiar discovery . . . the notion of being insolvent was found to be different from that of being bankrupt." The result was an economy of "zombies," with thousands of inefficient enterprises, starved of cash or any long-term hope of improvement, somehow managing to hang on in a strange limbo. Russia's industrial sector was, in Leontev's phrase, a hospital in which "the patient is neither recovering nor dying, but is just slowly going mad."[80]

Why did the energy sector accept such a bargain? Initially, it was well compensated with export privileges and tax exemptions. But in late 1995, as growing tax arrears of profitable fuel enterprises attracted international attention, some of these were gradually withdrawn. The sector's main motivation to avoid provoking crises became the fear of possible electoral consequences if public discontent at unemployment and fuel cutoffs to schools, hospitals, and military bases increased. Since both Zyuganov and Lebed made clear while campaigning for president that an opposition government would seek to extract even larger concessions, the oil and gas bosses had an interest in keeping the current elite in power.

The symbol of this alliance was Viktor Chernomyrdin, the former Gazprom chairman and prime minister. Had he not existed, he would

[79] *Ekspert*, March 4, 1996, 31.
[80] *Segodnya*, March 13, 1996, 1.

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no doubt have been invented. But his conversion from an advocate of price controls and credits in 1992 to a guarantor of monetary stability in 1995–96 dramatizes the sector's growing recognition that it was the biggest winner from market liberalization.

V. Conclusion

To paraphrase Mark Twain, macroeconomic stabilization is not difficult—some countries have done it many times. The hard part is to sustain a stabilization program politically against the opposition of those previously deriving large rents from the inflation tax. Russia was unable to meet this challenge in 1992–94. Yet in 1995 the government and central bank managed to reduce inflation sharply and consistently, despite an array of inauspicious conditions that made most political economists despair.

The key to this success was a pair of specific policies that compensated certain previous opponents of stabilization and changed their incentives. Part of the commercial banking sector was lured into the anti-inflationary camp by the government's creation of a market for state securities, protected from foreign competition and offering extremely high rates of return. The rents earned by early entrants to this market made up for those they were losing through the tightening of central credit and changed some major banks from proinflation debtors to anti-inflation creditors.

At the same time, insolvent farms, enterprises, and state installations that demanded inflationary credits were appeased with free or cheap energy. This nonmonetary means of injecting liquidity into illiquid spots reduced the credibility of threats of mass strikes and civil unrest and stretched out the agony of restructuring in a less politically explosive way. The energy sector was first repaid in tax breaks, export privileges, control over its own privatization, and other perks; later, as the budget's revenue problems worsened, it was prevailed upon to invest in the current elite rather than risk a communist alternative.

Whether this set of policies constituted deliberate, premeditated "reform mongering" remains unclear—and may have to await the memoirs of Chubais and Chernomyrdin. In the case of implicit energy subsidies, the impression is more one of the parties stumbling into a mutually advantageous arrangement through trial and error, responses to crises, and bargaining at the margin. Considerable circumstantial evidence does suggest a deliberate strategy by Chubais and others to interest the major commercial banks in less inflationary lines of business,

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though the precise terms of such a deal are, for obvious reasons, difficult to obtain.

The details of this particular stabilization strategy are unlikely to be repeated precisely in other cases. But the general device of finding nonmonetary or noninflationary methods to buy the acquiescence of previous beneficiaries of the inflation tax and change their incentives surely will. While redistribution creates no value and threatens efficiency for all the standard economic reasons, some types of redistribution are more inefficient than others. When political constraints preclude a sharp reduction in the rents paid to key constituencies, it may nevertheless be possible to substitute more efficient for less efficient means of paying them.

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WHY LIBERAL STATES ACCEPT UNWANTED IMMIGRATION

By CHRISTIAN JOPPKE*

ONE of the more popular watchwords of our time is that the nation-state is in decline—"too big" to solve regional problems, "too small" to solve global problems, as the topographical metaphor goes. A related argument is often made regarding an increasing incapacity of states to control immigration. "Strangers at the gate" was the alarmist cry heard in the wake of 1989 and all that. *The Economist* (March 15, 1991) showed a ramshackle border guardhouse being overrun by a giant bus bursting with all sorts of foreign-looking (and strangely cheerful) characters. Such hyperbole has since disappeared, partially as a result of tightened procedures for asylum across Western states. But there still seems to be a gap between a restrictionist control rhetoric and an expansionist immigration reality. An influential comparative volume on immigration control argues: "[T]he gap between the *goals* of national immigration policy . . . and the actual results of policies in this area (policy *outcomes*) is growing wider in all major industrialized democracies."[1] Why do the developed states of the North Atlantic region accept more immigrants than their generally restrictionist rhetoric and policies intend?

The phenomenon of unwanted immigration reflects the gap between restrictionist policy goals and expansionist outcomes. Unwanted immigration is not actively solicited by states, as in the legal quota immigration of the classic settler nations. Rather, it is accepted passively by states, either for humanitarian reasons and in recognition of individual rights, as in asylum-seeking and family reunification of labor migrants, or because of the states' sheer incapacity to keep migrants out, as in illegal immigration. The gap hypothesis can thus be reformulated as the question, Why do liberal states accept unwanted immigration?[2]

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[1] Wayne Cornelius, Philip Martin, and James Hollifield, eds., *Controlling Immigration* (Stanford, Calif.: Stanford University Press, 1994), 3.

[2] While frequently used in the literature—see, for example, Gary Freeman, "Can Liberal States Control Unwanted Migration?" *Annals of the American Academy of Political and Social Science* 534

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That states accept unwanted immigration contradicts one of their core prerogatives: the sovereignty over the admission and expulsion of aliens. As Hannah Arendt wrote with an eye to its totalitarian aberrations, "Sovereignty is nowhere more absolute than in matters of emigration, naturalization, nationality, and expulsion."[3] Does the acceptance of unwanted immigration indicate a decline of sovereignty? A quick "yes," as in David Jacobson's *Rights across Borders*, is premised on a simplistic and static notion of sovereignty, thus denying its historical variability and chronic imperfection.[4]

To answer the question fully, two things should be considered. First, it is important to distinguish between two separate aspects of sovereignty, formal rule-making authority and the empirical capacity to implement rules. The former belongs to international relations theory, in which sovereignty is the defining characteristic of individual states as the units of the international state system;[5] the latter falls within the domain of political and historical sociology, which has preferred the notions of state strength, capacity, or autonomy to investigate the historically varying embodiments of the modern state.[6] Gary Freeman has demonstrated that in both aspects there is little evidence for a decline of sovereignty regarding immigration control:[7] the decision to accept or reject aliens has not been relegated to actors other than the state, and the infrastructural capacity of modern states has not decreased, but increased, over time. Second, whether seen as judicial authority or empirical capacity, sovereignty has rarely been as absolute as conveyed by Arendt's characterization. Internationally, the exigencies of state interdependence have always put the brakes on erratic expulsion or nonadmittance practices because hostility against an alien might be

(1994), 17–30; Cornelius, Martin, and Hollifield (fn. 1), 5—the notion of "unwanted" immigration may be criticized on analytical and normative grounds. Analytically, it reifies states as collective individuals with clear-cut preferences. Normatively, it endows a political fighting term with academic respectability. Against such objections, I wish to point out that "unwanted" is used here in a purely descriptive sense, denoting immigration that occurs despite and against explicit state policies. Qualifying illegal immigration in the United States, the first case discussed here, as "unwanted" requires no further elaboration. Family immigration in Europe, the second case, is rendered "unwanted" by uniform zero-immigration policies since the early 1970s.

[3] Hannah Arendt, *The Origins of Totalitarianism* (San Diego: Harcourt Brace Jovanovich, 1973), 278.

[4] David Jacobson, *Rights across Borders* (Baltimore: Johns Hopkins University Press, 1996). See Stephen Krasner, "Westphalia and All That," in Judith Goldstein and Robert Keohane, eds., *Ideas and Foreign Policy* (Ithaca, N.Y.: Cornell University Press, 1993).

[5] See Janice Thomson, "State Sovereignty in International Relations," *International Studies Quarterly* 39 (1995), 213–33.

[6] See Peter Evans, Dietrich Rueschemeyer, and Theda Skocpol, eds., *Bringing the State Back In* (New York: Cambridge University Press, 1985).

[7] Gary Freeman, "The Decline of Sovereignty?" in Christian Joppke, *Challenge to the Nation-State: Immigration in Western Europe and the United States* (New York: Oxford University Press, 1998).

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interpreted as hostility against her state. In addition, international law prohibits both expulsion or nonadmittance on grounds of race and the *refoulement* of the victims of political persecution in other states. Not only states, but also individuals, are legal subjects under international law—a novelty of the postwar era—and states are increasingly obliged to respect an emergent "law of migrants."[8] Domestically, Western states qua constitutional states are bound by the rule of law, which in important respects protects the rights of persons and not just of citizens.[9]

Various authors have argued that global constraints force states to accept unwanted immigration. Saskia Sassen has identified two such external constraints on state sovereignty: economic globalization and the rise of an international human rights regime.[10] The penetration of peripheral countries by multinational corporations has created the push of an uprooted and mobile labor force seeking entry into the core countries of the world system. In addition, the secondary labor market in the receiving countries provides a powerful pull for immigrants. An emergent international human rights regime protects migrants, independent of their nationality, limiting the discretion of states toward aliens and devaluing national citizenship. Echoing the work of Jacobson, Sassen argues that the basis of state legitimacy has undergone a shift "from an exclusive emphasis on the sovereignty of the people and right to self-determination . . . to rights of individuals regardless of nationality."[11] Taken together, economic and political globalization "reduce[s] the autonomy of the state in immigration policy making,"[12] despite the state's desperate attempts to renationalize this policy area under the sign of populist restrictionism.

The diagnosis of globally diminished sovereignty indicates that the West has partially created what it seeks to contain—international migration. But it does not answer the question as to why Western states accept unwanted immigrants. First, the space-indifferent logic of globalization cannot explain why some states, such as the immigrant-receiving states of the oil-producing Middle East, are very efficient at

[8] R. Perruchoud, "The Law of Migrants," *International Migration* 24 (1986), 699–715.

[9] Luigi Ferrajoli decimates T. H. Marshall's identification of individual rights with citizenship rights, from which a new postnational "logic of personhood" is then construed as a departure. Instead, Ferrajoli shows that most individual (legal and social) rights in liberal states had *never* been invested in national citizenship and had *always* revolved around universal personhood. Ferrajoli, *From the Rights of the Citizen to Rights of the Person* (Manuscript, European Forum on Citizenship, European University Institute, Florence, 1995–96). On the logic of personhood, see Yasemin Soysal, *Limits to Citizenship* (Chicago: University of Chicago Press, 1994), chap. 8.

[10] Saskia Sassen, *Losing Control? Sovereignty in an Age of Globalization* (New York: Columbia University Press, 1996), chap 3.

[11] Jacobson (fn. 4); Sassen (fn. 10), 95.

[12] Sassen (fn. 10), 98.

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keeping out, or sending back, unwanted immigrants.[13] Only liberal states are plagued by the problem of unwanted immigration. Second, globalists operate with a hyperbolic notion of strong sovereignty that never was. In terms of economic transactions, the world of the late nineteenth century was no less global than the world one hundred years later.[14] If the Bonn Republic allowed its guest workers to stay, while Wilhelmine Germany practiced resolute rotation and mass expulsions, a state weakened by economic globalization cannot be the explanation. The state always had to vindicate itself within and against an inherently globalizing capitalism. Third, and related to this, the very reference to economic factors is insufficient to explain why states accept immigrants, wanted or unwanted. Economic globalization explains the mobilization of potential immigrants in the sending societies, as well as the interest of domestic employers in acquiring them, but not their actual acceptance by the receiving states. Unless one subscribes to the questionable view that the state is always a tool of capitalism, the task would be to identify the domestic processes by which, say, expansionist employer interests cancel out the restrictionist interests of the public in specific times and places. But then sovereignty would turn out to be internally, not externally, diminished. Fourth, the international human rights regime is not so strong as to make states fear and tremble. Jack Donnelly characterized it as a "relatively strong promotional regime," which rests on widely accepted norms and values, but lacks implementation and enforcement powers.[15] Devoid of hard legal powers, the international human rights regime consists of the soft moral power of discourse.[16] This is better than nothing. But globalists have been content with listing formal treaty and convention titles, avoiding the "detailed process-tracing" by which their soft power may become domestically effective.[17] Perhaps there would be little process to trace. For instance, the recent tightening of asylum law and policy across Western states demonstrates that these states have been extraordinarily inventive in circumventing the single strongest norm of the international human rights regime, the non-refoulement obligation.[18]

[13] Myron Weiner, *The Global Migration Crisis* (New York: HarperCollins, 1995), 80–83.

[14] Janice Thomson and Stephen Krasner, "Global Transactions and the Consolidation of Sovereignty," in Ernst-Otto Czempiel and James Rosenau, eds., *Global Changes and Theoretical Challenges* (Lexington, Mass.: Lexington Books, 1989).

[15] Jack Donnelly, "International Human Rights: A Regime Analysis," *International Organization* 40, no. 3 (1986).

[16] Soysal (fn. 9).

[17] Martha Finnemore, "Norms, Culture and World Politics: Insights from Sociology's Institutionalism," *International Organization* 50, no. 2 (1996), 339.

[18] Christian Joppke, "Asylum and State Sovereignty," *Comparative Political Studies* 30, no. 3 (1997).

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In the following, I propose an alternative explanation. The capacity of states to control immigration has not diminished but increased—as every person landing at Schipohl or Sidney airports without a valid entry visa would painfully notice. But for domestic reasons, liberal states are kept from putting this capacity to use. Not globally limited, but self-limited sovereignty explains why states accept unwanted immigrants.

Gary Freeman identified the political process in liberal democracies as one major element of self-limited sovereignty.[19] In contrast to the globalist diagnosis of vindictive yet ineffective restrictionism in Western states, Freeman starts with an opposing observation that the politics of immigration in liberal democracies is, in fact, "broadly expansionist and inclusive,"[20] for which he gives two reasons. First, the benefits of immigration (such as cheap labor or reunited families) are concentrated, while its costs (such as increased social expenses or overpopulation) are diffused. That poses a collective action dilemma, in which the easily organizable beneficiaries of concentrated benefits (such as employers or ethnic groups) will prevail over the difficult-to-organize bearers of diffused costs, that is, the majority population. Borrowing from J. Q. Wilson, Freeman argues that immigration policy in liberal states is "client politics . . . a form of bilateral influence in which small and well-organized groups intensely interested in a policy develop close working relationships with officials responsible for it."[21] Taking place out of public view and with little outside interference, the logic of client politics explains the expansiveness of liberal states vis-à-vis immigrants. Second, the universalistic idiom of liberalism prohibits the political elites in liberal states from addressing the ethnic or racial composition of migrant streams. Freeman calls that the "antipopulist norm." Its most potent expression is the principle of source country universalism in the classic settler nations, which no longer screen potential immigrants for their ethnic or racial fitness. The antipopulist norm will induce elites to seek consensus on immigration policy and to remove the issue from partisan politics.

As I shall argue, a domestic political process under the sway of client politics is one reason why liberal states accept unwanted immigration. But I suggest two modifications to Freeman's model.

[19] Gary Freeman, "Modes of Immigration Politics in Liberal Democratic States," *International Migration Review* 29, no. 4 (1995).

[20] Ibid., 881.

[21] Ibid., 886. James Q. Wilson's notion of client politics is built upon Mancur Olson's theory of collective action dilemmas, which states that the organized and active interest of small groups tends to prevail over the nonorganized and nonprotected interest of large groups. The premise of this expected outcome is rational, self-interested action on part of the individual. Wilson, ed., *The Politics of Regulation* (New York: Basic Books, 1980); Olson, *The Logic of Collective Action* (Cambridge: Harvard University Press, 1965).

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First, Freeman ignores the legal process as a second source of expansiveness toward immigrants in liberal states. In fact, the political process is chronically vulnerable to populist anti-immigrant sentiments —even in the United States, as the Congressional anti-immigrant backlash in the wake of California's Proposition 187 testifies. Judges are generally shielded from such pressures, as they are only obliged to the abstract commands of statutory and constitutional law. The legal process is crucial to explaining why European states continued accepting immigrants despite explicit zero-immigration policies since the early 1970s. In open opposition to a restrictionist executive, which switched from elitist client politics to popular national interest politics, courts invoked statutory and constitutional residence and family rights for immigrants. In Europe, the legal rather than the political process explains why states accept unwanted (family) immigration.

In a second modification to Freeman's model, I suggest that there are important variations in the processing of unwanted immigration not just between the United States and Western Europe but within West European states themselves. Freeman lumps together guest-worker- and postcolonial-based immigration regimes and thus overlooks their different logics. In a guest-worker regime, such as Germany's, the state at one point actively lured (de facto) immigrants into the country, and thus is morally constrained not to dispose of them at will once it decides upon a change of course. In a postcolonial regime, such as Britain's, immigration was never actively solicited but passively tolerated for the sake of a secondary goal—the maintenance of empire. Immigration policy is thus by definition a negative control policy against immigration that at no point has been wanted. Differently developed moral obligations toward immigrants in both regimes (among other factors) help explain variations in European states' generosity or firmness toward immigrants.

Discussing the two cases of illegal immigration in the United States and family immigration in Europe,[22] I suggest that liberal states are internally, rather than externally, impaired in controlling unwanted immigration. The failure of the United States to control illegal immigra-

[22] Comparing state responses to illegal immigration and family immigration may seem odd. Why not compare state responses to only one form of immigration, be it illegal or family-based? Illegal immigration in Western Europe is too recent and protean to warrant a comparison with the U.S., where it has been a recurrent stake of political debate for two decades. Family immigration in the United States is not unwanted immigration, in the sense of occurring against the backdrop of explicit zero-immigration policies. Rather, family reunification in the U.S. is the major principle of selecting wanted new quota-immigrants, having precedence even over the criterion of skills. It would have been possible to compare state responses to mass asylum-seeking, the third major source of unwanted immigration in liberal states, but it raises additional issues of refugee law and politics. I have discussed asylum policy separately; see Joppke (fn. 18).

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tion, particularly from Mexico, is due primarily to the logic of client politics and a strong antipopulist norm that feeds upon America's emphatic self-description as a universal "nation of immigrants" and upon the civil rights imperative of strict nondiscrimination. In Europe, legal and moral constraints kept states from pursuing rigorous zero-immigration policies after the closing of new postcolonial and guest-worker immigration in the late 1960s and early 1970s, respectively. Juxtaposing the extreme cases of Germany and Britain, I further suggest that these constraints were most unevenly distributed across Europe, partially reflecting the different logics of guest-worker and postcolonial regimes.

Illegal Immigration in the United States

America's enduring incapacity to control illegal immigration is the root cause of its heated immigration debate today. Before investigating this incapacity, it is first necessary to destroy the public myth that the United States has lost control over its borders. This myth, shared by policymakers and academics alike, was powerfully established by the 1981 report of the U.S. Select Commission on Immigration and Refugee Policy, *U.S. Immigration Policy in the National Interest*. It stipulated that immigration policy was "out of control," and that the containment of illegal immigration had to be the first step in regaining control.

That perspective, stating a sequence of loss and recovery, is misleading; there had never been a golden age of control. The problem of illegal immigration is a by-product of the attempt to build a unified, national system of immigration control, which no longer exempted Western hemisphere immigration. The three-step effort entailed: (1) stopping (under the pressure of domestic labor unions) the Bracero guest-worker program in 1964, which for more than two decades had provided Western growers with cheap foreign fruit pickers; (2) establishing through the 1965 Immigration Act a ceiling of 120,000 immigrant visas for the Western hemisphere, which had formerly been exempted from numerical restrictions; and (3) applying, in 1976, the Eastern hemisphere individual-country limit of twenty thousand annual visas to Western hemisphere countries, which resulted in Mexico instantly developing a severe visa backlog. Not a loss of control, but the nationalization and standardization of U.S. immigration control is the proper premise for understanding the origins of illegal immigration. Tellingly, apprehension figures—widely used as indicators of the stock and flow of illegal immigrants—rose steeply after the end of Bracero in

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1964. They first crossed the one million mark in 1976, at the very moment the first national immigration regime, which applied the same control criteria to Eastern and Western Hemisphere countries, was completed. Without belittling the physical dimension of a two thousand mile land border that divides the First from the Third World, the problem of illegal immigration is quite literally a social construction.

Given this caveat of a control that never was, and bracketing the physical problem of policing an inherently difficult border, the incapacity of the U.S. to stop illegal immigration is due to the logic of client politics, as predicted by Gary Freeman. I will illustrate this, first, through the career of the 1986 Immigration Reform and Control Act (IRCA), and, second, through the failure of the U.S. to establish effective immigration controls in the 1990s.

IRCA carried its restrictionist intention in its name. It turned out, however, to be vastly expansionist, legalizing the status of three million illegal immigrants in the United States, while failing to establish effective measures against the inflow of new illegal immigrants. The influence of two client groups is responsible for this outcome: ethnic and civil rights groups, who argued and mobilized effectively against allegedly discriminatory employer sanctions; and employers, particularly Western growers, who pushed for a guest-worker program that became acceptable only through adopting the features of a second, small amnesty for temporary workers.

In a settler nation, where nation building has coincided with immigration, immigration policy is a highly institutionalized process, in which pro-immigrant interests have a legitimate, entrenched role in policy-making. During the first round of the six-year IRCA saga, which ranks among the more embattled legislations of recent times, the opposition of Hispanic interest groups to the introduction of employer sanctions was key to preventing temporarily any legislation on illegal immigration. As recommended by the Select Commission in 1981, the stick of employer sanctions was to accompany the carrot of amnesty. Unless it was illegal for employers to employ illegal workers—so reckoned the Select Commission—the legacy of the infamous Texas Proviso was not to be beaten.[23] But because Hispanics formed the majority of illegal immigrants in the U. S., any measure against illegal immigrants must have appeared as anti-Hispanic. As Republican senator Alan Simpson of Wyoming, a congressional leader of immigration re-

[23] Inserted in the 1952 Immigration and Nationality Act at the behest of Texan growers, the so-called Texas Proviso stated that employing illegals did not constitute the criminal act of "harboring." Accordingly, it was legal to employ illegal immigrants, although they were still subject to deportation.

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form throughout the 1980s and 1990s, put it, "Any reference to immigration reform or control turns out, unfortunately, to be a code word for ethnic discrimination."[24] In their opposition to the "anti-Hispanic" employer sanctions, the Hispanic lobby skillfully exploited the fact that even the slightest hint of ethnic or racial discrimination was anathema in the era of civil rights. In fact, in the battle over employer sanctions, Hispanics first emerged as a unified national force capable of blocking legislation detrimental to their perceived interest. Twice, in 1982 and 1983, the Hispanic lobby succeeded in stalling the House version of the Simpson-Mazzoli (immigration reform) bill after it had won comfortable majorities in the Senate. Democratic House majority leader Thomas P. (Tip) O'Neill caustically defended his refusal to hold a vote on the second Simpson-Mazzoli bill in October 1983: "[I]t has to be acceptable to the Hispanic Caucus."[25]

The Hispanics were joined by civil rights groups, who feared that the introduction of an employment verification system (dubbed a "national ID card") would be detrimental to civil liberties in general, and lead to a "culture of suspicion."[26] This perception was shared across the ideological spectrum. A leading conservative columnist branded the introduction of an ID card as "this generation's largest step toward totalitarianism," concluding that "it is better to tolerate the illegal movement of aliens and even criminals than to tolerate the constant surveillance of the free."[27] In his refusal to have a vote on the second version of the Simpson-Mazzoli bill, O'Neill struck a similar chord: "Hitler did this to the Jews, you know. He made them wear a dog tag."[28] Against such wide opposition, which linked the civil rights imperative of nondiscrimination with traditional American antistatism, the plan of a standardized employment verification scheme had to be dropped. A first severe crack in the control dimension of IRCA had been inflicted.

During the second round of IRCA, compromise-seeking agricultural employers broke their initial alliance with the less compromise-prone ethnic and civic groups, but demanded a guest-worker program as the price for their support of an immigration control law. The growers' insatiable appetite for cheap immigrant labor was equally disliked by Simpson, whose honest but quixotic mission was to craft immigration law and policy in the national interest: "The greed of the growers . . . is

[24] *New York Times,* August 16, 1982, A12.
[25] *New York Times,* October 5, 1983, 1.
[26] Rick Swartz, interview with author, Washington, D.C., March 26, 1994.
[27] William Saffire, "The Computer Tattoo," *New York Times,* September 9, 1982, A27.
[28] Ellis Cose, *A Nation of Strangers* (New York: Morrow, 1992), 167.

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insatiable. There is no way they can be satisfied. Their entire function in life is that when the figs are ready, the figs should be harvested and they need four thousand human beings to do that."[29] A third, more drastic version of the Simpson Senate bill, introduced in spring 1985, brought the moderate part of the Hispanic lobby aboard by threatening to drop the amnesty provision altogether. In this "final inning" of the Simpson-Mazzoli saga,[30] the joint energy of immigration control advocates and of the ethnic and civil rights lobby focused on neutralizing the growers' initiative for a guest-worker program. This initiative was spearheaded by the later immigration foe Pete Wilson, then a Republican senator from California, who asked for an annual contingent of 350,000 foreign workers to harvest perishable fruits for up to nine months a year.

Interestingly, the idea of guest workers was liked by no one except the growers, with the European negative experience firmly in mind. The inevitable compromise with the growers thus had to consist of beefing up the civil rights of the workers they asked for. Mediated by liberal Congressman Charles Schumer, the eventual compromise transformed the guest-worker program into a second amnesty. The so-called Schumer proposal, which became a part of IRCA, provided permanent-resident status, and eventually citizenship, for illegal aliens who had worked in American agriculture for at least ninety days from May 1985 through April 1986, while granting the same possibility to "replenishment" workers in the future. "For the first time in American history," said an exuberant Lawrence Fuchs, "outsiders brought in to difficult, temporary jobs would be given the full Constitutional protections and many of the privileges of insiders."[31]

Signed into law in early November 1986, the Immigration Reform and Control Act was certainly a "left-center bill,"[32] in which the control aspect was barely visible. Putting to an end the Texas proviso, IRCA imposed a sanction scheme on employers who knowingly hired illegal immigrants. But in a concession to Hispanics and employers, sanctions would be abolished if the General Accounting Office were to find discrimination or undue burdens on employers in the future. Most importantly, IRCA included a far-reaching antidiscrimination provision that

[29] Lawrence Fuchs, "The Corpse That Would Not Die: The Immigration Reform and Control Act of 1986," *Revue Européenne des Migrations Internationales* 6, vol. 1 (1990).

[30] Aristide Zolberg, 1990. "The Immigration Reform and Control Act of 1986 in Historical Perspective," in Virginia Yans-McLaughlin, ed., *Immigration Reconsidered* (New York: Oxford University Press, 1990), 326–35.

[31] Fuchs (fn. 29).

[32] Congressman Charles Schumer, quoted in the *New York Times*, October 12, 1984, 17.

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added the concept of "alienage" to Title VII of the Civil Rights Act, prohibiting employment discrimination on the basis of citizenship. This amounted to the "only expansion of civil rights protection in the whole Reagan era."[33]

Of IRCA's dual amnesty-sanctions agenda, only the amnesty component worked as intended. Nearly 1.8 million illegal immigrants applied for legal status under the general legalization program, and 1.3 million under the small amnesty of the Special Agricultural Worker (SAW) program. But IRCA failed to reduce the stock and flow of illegal immigrants. After a temporary drop of apprehension figures in 1987 and 1988—attributable less to the effectiveness of sanctions than to a wait-and-see response among potential immigrants—by 1989 the illegal flow was back to pre-IRCA levels.[34] In 1993 the size of the illegal population in the U.S. was estimated to be as high as ten years ago—between three and four million persons.[35]

Why did IRCA fail to control illegal immigration? A major reason is a toothless sanctions scheme, which resulted from the "odd coalition" pressure by Hispanics and employers.[36] From early on, a good-faith clause had been inserted into the Simpson-Mazzoli bill, which released employers from any obligation to check the authenticity of employees' documents: a document check conducted in good faith constituted an "affirmative defense" that the respective employer had not committed the "knowing hire" misdemeanor.[37] In effect, employers were immune from punishment if they filled out and filed away routine I-9 forms that attested to the document check. Because the introduction of a national ID card had been blocked, some twenty-nine documents—including easily faked U.S. birth certificates, so-called breeders—served to satisfy the control requirement. The positive affirmative-defense incentive was complemented by a negative antidiscrimination incentive: demanding a specific ID constituted an "unfair immigration related employment practice." So employers were better off accepting the document passively offered by the prospective employee. As David Martin put it,

[33] Swartz (fn. 26).

[34] See Frank Bean, Barry Edmonston, and Jeffrey Passel, eds., *Undocumented Migration to the United States* (Washington, D.C.: The Urban Institute, 1990).

[35] Demetrios Papademetriou, "Illegal Mexican Migration in the United States and U.S. Responses," *International Migration* 31, nos. 2–3 (1993), 314–48.

[36] Another reason for IRCA's failure is that it does not even touch the problem of visa overstayers, which account for over 60 percent of the undocumented population. David Martin, "The Obstacles to Effective Internal Enforcement of the Immigration Laws in the United States" (Paper presented at the AAAS/GAAC Conference on German-American Migration and Refugee Policies, Cambridge, Mass., March 23–26, 1995), 3.

[37] Kitty Calavita, "U.S. Immigration and Policy Responses," in Cornelius, Martin, and Hollifield (fn. 1), 71.

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IRCA's sanctions scheme "tells employers that it is more important to avoid even an appearance of discrimination than it is to wind up employing unauthorized workers."[38] The civil rights imperative of nondiscrimination has obviously stood in the way of effective immigration control.

As I would like to argue in a second step, even the anti-immigration movement of the 1990s has been unable to do away with expansive client politics. The inability of political elites to deal effectively with illegal immigration provoked the biggest anti-immigrant backlash in seventy years. In November 1994, Californian voters overwhelmingly passed Proposition 187, dubbed the "Save Our State" (SOS) Initiative, which would bar illegal aliens from most state-provided services, including health care and education. This was no less than a political earthquake. Transmitted by the most conservative Congress in half a century, with both houses falling to Republican control in the same November elections, the aftershock was immediately felt in Washington. A sweeping overhaul not only of illegal, but also of legal immigration seemed to be in the making, turning the clock back before 1965, the legislative opening of America to mass immigration. Two years later, the earthquake is reduced to a tremor. The planned restriction of legal immigration has been shelved, perhaps indefinitely. Until it was signed into law as the Immigration Control and Financial Responsibility Act of 1996, an initially drastic proposal to combat illegal immigration was watered down significantly. Once again, client politics came in the way of "put[ting] the interests of America first."[39]

It is no accident that the anti-immigrant earthquake had its epicenter in California. Initially rural and peopled by the white farmers' flight from the dust-bowl misery of 1930s Oklahoma, California not only lacks the "nations of immigrants" nostalgia of the East Coast cities, with the Statue of Liberty and other new world symbols, but more importantly, it also is the residence of almost half of the estimated national total of four million illegal immigrants. The Urban Institute calculated that they cost the state close to $2 billion per year in education, emergency medical services, and incarceration. Against this, the $732 million in state revenues from sales, property, and income taxes on illegal aliens appear paltry.[40]

[38] Martin (fn. 36), 6f.

[39] Lamar Smith, Republican representative from Texas, used this phrase to characterize his sweeping House bill that dealt jointly with legal and illegal immigration. "House G. O. P. Moves to Cut Immigration," *New York Times*, June 22, 1995.

[40] Peter Schuck, "The Meaning of 187," *The American Prospect* 85 (1995).

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California epitomizes three problems of contemporary immigration to the U.S.: its extreme regional concentration; the disproportionate costs incurred by some state governments, while the main benefits in terms of federal taxes and social security payments are reaped by the federal government; and the increasing focus on immigration's negative welfare rather than labor-market implications. Accordingly, the leaders of SOS and their staunchest supporter, Republican governor Pete Wilson, went out of their way to stress that Proposition 187 was not about immigration control (which is the prerogative of the federal government), but about a squeezed budget. The budget crunch was real, given that California was just undergoing its most severe economic recession since the first oil crisis, which resulted from the post–cold war restructuring of the U.S. defense industry.

It was clear up front that Proposition 187, which openly defied the Supreme Court ruling in *Plyler v. Doe*,[41] would get stuck in local and federal courts. However, also supported by one-third of Latino and the majority of Asian and black voters, Proposition 187 was essentially a symbolic measure to the political elites who had so recklessly evaded realities and responsibilities for years. And if Congress picked up the ball at the national level (this was the more than symbolic reasoning of the initiative leaders) the Supreme Court might reconsider *Plyler v. Doe* and eventually uphold the restrictionist state law.

Congress indeed picked up the ball without delay. A federal Commission on Immigration Reform immediately proposed drastic changes of existing immigration law and policy. Headed by Barbara Jordan, the former black Congresswoman from Texas, and spiked by liberal pro-immigrant politicians and academics, the commission in its final report in March 1995 recommended that legal immigration should be cut by one-third, the extended family categories should be scrapped altogether, and employers should find it more difficult and costly to hire foreign professionals. Interestingly, the commission did not touch the nation-of-immigrants myth, but stated that "the U.S. has been and should continue to be a nation of immigrants."[42] But this proposal, supported also by the Clinton administration, went even further than Proposition 187 and Governor Wilson, who had targeted only illegal immigration.

[41] In its *Plyler v. Doe* decision (1982), the Supreme Court ruled that the children of illegal immigrants have the constitutional right to a public school education. *Plyler* indicates that, in addition to a political process under the sway of client politics, the legal process has bolstered the position of illegal immigrants in the U.S. For the lack of space, I cannot discuss this further here, but see Peter Schuck, "The Transformation of Immigration Law," *Columbia Law Review* 84, no. 1 (1984).

[42] Barbara Jordan, "The Americanization Ideal," *New York Times,* September 11, 1995.

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Regarding illegal immigration, the commission already in late 1994 had advocated a national employment verification system, which would compile the names and social security numbers of all citizens and legal aliens authorized to work in the U.S. and make it mandatory for employers to call it up before hiring new workers. The proposal stopped short of introducing a national ID card, which continues to be anathema in the U.S. But, predictably, it was seen by a plethora of ethnic, civil rights, and business organizations as being just that: a national ID card in disguise. The commission's recommendations were incorporated in similar House and Senate bills, introduced by Lamar Smith, a Republican congressman from Texas, and Senator Alan Simpson. Both bills centered around three measures: cut legal immigration by slashing the nonnuclear family categories and reducing skilled immigration; combat illegal immigration by screening the workplace more tightly and fortifying the borders; and, in a windfall from the parallel congressional effort of welfare reform, making illegal and legal aliens ineligible for most public services.

Hardly had the ink dried, when the machine of client politics was set in motion. An unusually broad "Left-Right Coalition on Immigration" included not just the usually odd immigration bedfellows of employers and ethnic and civil rights groups, but also the Home School Network, a Christian fundamentalist group rallying against the antifamily measures to curtail legal immigration; Americans for Tax Reform, who disliked—along with Microsoft, Intel, and the National Association of Manufacturers—to have employers pay a heavy tax on each foreign worker they sponsored; and the National Rifle Association, upset by the employment verification system (If you're going to register people, why not guns? they shouted).[43] Richard Day, the chief counsel to the Senate Judiciary Subcommittee, characterized this unusual line-up as "Washington groups" against "the American people," who had asked for "some breathing space" from immigration.[44] Such is the logic of immigration as client politics.

The first success of the client machine was to split the omnibus bill in two. The machine was helped in this by divisions within the Republican Party. A large section of free-market and family-value Republicans (such as Jack Kemp, William Bennett, and Dick Armey) favored legal immigration. In addition, Republicans from California, where the problem of illegal immigration was most pressing, feared that rifts over

[43] "The Strange Politics of Immigration," *New York Times*, December 31, 1995.

[44] "Unlikely Allies Battle Congress over Anti-Immigration Plan," *New York Times*, October 11, 1995.

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legal immigration would improperly delay the impatiently awaited crackdown on illegal immigration. In March 1996, the Senate Judiciary Committee, with the parallel House committee following suit, decided to postpone legislation on legal immigration and to concentrate on illegal immigration first. The "big one" had suddenly shrunk to a smallish immigration tremor. Only a few months earlier, Republican Lamar Smith had boasted that "the question is no longer whether legal immigration should be reformed, but how it should be reformed."[45] Now he lay flattened by the client machine. "Congress has listened to lobbyists more than public opinion," wrote an angry immigration foe.[46]

After cracking the omnibus bill, the effort of the pro-immigration lobby concentrated on smoothening some drastic features of the remaining bill on illegal immigration. One target was the proposal for a mandatory, nationwide, employment verification system, denounced by a libertarian critic as "dialing '1-800 Big Brother.' "[47] An amendment by Senator Edward Kennedy watered down the proposal, which was to be in place within eight years, to a variety of voluntary pilot programs in high-immigration states, to be reviewed by Congress after three years. The weakened proposal meant that without new legislation, there would be no nationwide employment verification system. This was an important step away from the recommendation of the Commission on Immigration Reform, which had called a mandatory national verification system the linchpin of combating illegal immigration. In addition, an amendment by Senator Orrin Hatch, a pro-immigration Republican from Utah, eliminated a hefty increase in fines against employers who knowingly hired illegal aliens—a victory for small business owners.

When signed into law by President Clinton in early October 1996, the "Maginot line against illegal immigration"[48] looked more like a Swiss cheese, with big holes eaten into it by America's clients of immigration policy. The drastic Gallegly amendment in the House (named after its sponsor, California Republican Elton Gallegly), which would allow states to bar the children of illegal immigrants from public schools and thus would turn into national law California's Proposition 187, was dropped from the final bill, also because of a safe presidential veto.

A watered-down employment verification system is unlikely to fix the biggest deficit in illegal immigration control, ineffective workplace

[45] "Congress Plans Stiff New Curb on Immigration," *New York Times*, September 25, 1995.
[46] Roy Beck, "The Pro-Immigration Lobby," *New York Times*, April 30, 1996.
[47] "House Panel Approves Plan to Register Immigration Status," *New York Times*, November 22, 1995.
[48] Quoted in "Senate Votes Bill to Reduce Influx of Illegal Aliens," *New York Times*, May 3, 1996.

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screening and employer sanctions. The control impetus in the new law thus boils down to stricter border enforcement; doubling the number of border patrol agents to ten thousand by the year 2000: requiring the Immigration and Naturalization Service (INS) to build a fourteen-mile long, ten-foot high, triple-steel fence south of San Diego; and imposing stiff penalties on the flourishing business of smuggling aliens into the U.S. This only reinforces existing policy. As in its various border operations, "Gatekeeper" or "Hold the Line," the Clinton administration had cleverly preempted Republicans from monopolizing the immigration-control discourse during the 1996 Presidential election campaign. It must be conceded that, whatever means it chooses, the United States can perhaps never expect to reduce illegal immigration to zero. As Peter Schuck correctly noted, "A vast, prosperous nation with strong due process and equal protection values and a 2,000-mile border with the Third World cannot eliminate illegal migration; it can only hope to manage it."[49] Chances are that the Immigration Control and Financial Responsibility Act of 1996 will not be of much help in accomplishing this task.

Family Immigration in Europe

Whereas America's debate about illegal immigration is alive and evolving every day, Europe's debate about family immigration is historically closed, reflecting a fundamental difference in immigration on both sides of the Atlantic. In the United States, immigration is a recurrent process. Not even the most severe anti-immigrant backlash in the last seventy years has managed to slam the Golden Door, and mass immigration (legal and illegal) continues unabated. By contrast, Europe closed its doors to new immigration over twenty years ago. Postwar immigration to Europe has been a nonrecurrent, historically unique process, with immigrants acquired not by will, but by default.

The family became the site for closing down guest-worker and postcolonial immigration, torn between the opposite vectors of the individual rights of migrants and the right of sovereign states to admit or reject aliens. In this, European family immigration differs from American family immigration, which is defined in the language of quotas, not rights, and has become the chief mechanism of acquiring new wanted immigrants. European states did not actively solicit the belated arrival of the spouses and children, not to mention the extended family, of its labor migrants. They had to accept family immigration, recognizing the

[49] Schuck (fn. 40), 91.

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moral and legal rights of those initially admitted. In this sense, European family immigration is unwanted immigration. As I shall argue, its acceptance can not be understood in terms of client politics. There is no entrenched pro-immigration lobby in Europe comparable to the United States. After the shift to zero-immigration policies from the late 1960s to early 1970s, the European politics of immigration became national interest politics. States now uniformly disregarded their single strongest client, employers interested in cheap foreign labor, and acted on behalf of collective goals such as social integration or the integrity of nationhood. The immigration that still occurred was as of right or morally tolerated immigration. It pitted a state that would rather not see it happen against the immigrant who only sought what liberal states cannot deny—family unity.

In handling family immigration, European states accepted a language of primary and secondary immigration that is unknown in the United States. Primary immigration is actively recruited, as in a guest-worker regime, or passively tolerated in the absence of restrictions, as in a postcolonial regime. Secondary immigration occurs after the recruitment stop or the introduction of restrictions, in recognition of the family rights of primary immigrants. In each European state there is a historically particular core of primary immigrants, such as South Asians or Afro-Caribbeans in Great Britain or Turks in Germany, for whom a specific, elaborate discourse of rights and moral obligations evolves. This approach has allowed European states to act humanely and generously toward those once admitted, while slamming the door to everyone else. In this sense, the principle of source-country universalism and the norm of not addressing the ethnic composition of migrant streams, which Freeman saw universally established across liberal states, has not established itself in Europe.[50] Primary immigrants were simply subjected to the exigencies of nation building as usual; they did not transform Europe into self-conscious nations of immigrants. Thus, toward the outer layers of secondary (or even tertiary) immigration, the sense of moral obligation and the family rights of migrants had to become successively weaker. In the absence of such gradations, primary immigration would have forever spun off new immigration, and nonrecurrent immigration would have turned into recurrent immigration, U.S. style.

[50] A second example for the absence of source-country universalism in European immigration policy is the phenomenon of ethnic-priority immigration, such as the "patrials" in Britain or the "Aussiedler" (ethnic German resettlers) in Germany, for which there is no parallel in the U.S.

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GENEROUS IN GERMANY

A tiresome tendency in scholarly writings about German immigration is to chastise the state for its "not a country of immigration" philosophy, which so patently denies the country's immigration reality.[51] No immigration reality could ever contradict the state's philosophy, because it is a normative statement reflecting the Bonn Republic's self-description as a homeland of the subjugated German diaspora in communist Eastern Europe.[52] In fact, the not-a-country-of-immigration formula was introduced when four million foreigners already resided in (West) Germany and showed no signs of leaving. Only against this backdrop does the philosophy make any sense at all. Further complicated by its unresolved national question, Germany articulated, only more extremely, what all European countries were—not countries of immigration.

A second shortcoming of scholarly writings on German immigration is their fixation on the political process, drawing a grim picture of de facto immigrants as hapless victims of a repressive state. That perspective overlooks the pivotal importance of the legal process, which allowed guest workers to turn into settlers with permanent-resident rights and even to grow in numbers through constitutionally protected family immigration.

To be sure, the invocation of constitutional rights for guest workers occurred against the backdrop of an immigration law that enshrined unfettered executive discretion and conceded no rights whatsoever to the foreigner. Paragraph 2(1) of the Foreigner Law of 1965 stipulates: "A residence permit may be issued if the presence of the foreigner does not harm the interests of the Federal Republic." Residence permits were issued for a year, on a renewable basis, but initially there were no provisions for more than temporary stays on German territory. Before the so-called "permanence regulation" (*Aufenthaltsverfestigung*) of 1978, long-term residence did not stabilize, but jeopardized the foreigner's status because it contradicted the official "no-immigration" policy. Following the logic of a guest-worker regime, which conceived of the foreigner as a return-oriented, isolated carrier of labor power, devoid of family ties, no rules originally provided for family reunification. Detailed rules for reuniting foreign families were not devised before 1981, and their thrust was to close a major source of unwanted immigration after the recruitment stop.

[51] See Thomas Faist, "How to Define a Foreigner?" *West European Politics* 17, no. 2 (1994).

[52] Kay Hailbronner, "Ausländerrecht und Verfassung," *Neue Juristische Wochenschrift* 36, no. 38 (1983), 2113.

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For twenty-five years, the political branches of government managed to escape their responsibility to adjust an archaic Foreigner Law to the new reality of de facto immigration and to replace the rule by administrative decree by the proper rule of law. An activist judiciary stepped into this vacuum, aggressively and expansively interpreting and defending the rights of foreigners. They could do so on the basis of a constitution that drew two fundamental lessons from recent German history: first, to subordinate state power to the rights of individuals; and second, to grant the most fundamental of these rights without respect to nationality. The first seven articles of the Basic Law protect universal human rights, independent of national citizenship. Article 1 makes that point emphatically: "The dignity of the individual is untouchable." The article also introduces the principle of self-limited sovereignty, obliging the state to "respect" and "protect" the dignity of the individual. In a conscious departure from Germany's "strong" state tradition, the German Basic Law puts the individual first, the state second; it is conceived in the spirit of limiting state sovereignty by individual rights.

On these grounds, a series of Constitutional Court rules obliterated the official "not-a-country-of-immigration policy.[53] In the so-called Arab case of 1973, the court invalidated an immediate deportation order against two Palestinians accused of harboring contacts with terrorist groups, arguing that the plaintiffs had constitutional liberty rights that outweighed the public interest in their immediate removal. In the so-called Indian case of 1978, the court repealed a lower court rule that had affirmed the nonrenewal of a residence permit to an Indian who had lived in Germany continuously since 1961. Instead, the court argued that the previous routine renewal of residence permits had created a constitutionally protected "reliance interest" (*Vertrauensschutz*) on part of the plaintiff in continued residence. Against this reliance interest, the official no-immigration policy was moot: "For a rejection of the residence permit renewal it is not sufficient to point to the general maxim that the Federal Republic is no country of immigration."[54]

Once the residence rights of guest workers were secured, the Constitutional Court turned to the issue of family reunification—a much trickier terrain. It did not involve the rights of established residents but the initial granting of new residence permits. Since the recruitment stop of 1973, the chain migration of families of guest workers was (next to asylum) one of the two major avenues of continuing migration flows

[53] See Gerald L. Neuman, "Immigration and Judicial Review in the Federal Republic of Germany," *New York University Journal of International Law* 23 (1990).

[54] *Decision of 26 September 1978* (1 BvR 525/77), 186.

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to Germany, in patent contradiction to the official no-immigration policy.[55] Since December 1981, the federal government has recommended that the responsible states severely restrict the entry of foreign spouses of second-generation guest workers. Such family reunification was to be contingent upon an eight-year residence minimum of the resident spouse and a postmarriage waiting period of one year. By contrast, no restrictions were imposed on first-generation guest workers. The federal government defended this differential policy before the Constitutional Court on moral grounds: "Because of its recruitment of foreign workers the Federal Republic has accepted a special responsibility towards the recruited; but it has not obliged itself to accept a generation-spanning immigration of family members."[56] Typical of German federalism, the states (*Länder*) implemented the federal recommendations on second-generation marriage immigration highly unevenly. Liberal Hesse lowered the residence requirement to five years; restrictionist Bavaria increased the waiting period for spouses to three years; and hyper-restrictionist Baden-Württemberg broke the existing elite consensus of not limiting first-generation marriage immigration by extending the three-year waiting period from second- to first-generation guest workers.

In the Turkish and Yugoslav case of 1987, the Constitutional Court stopped short of recognizing a constitutional right of family reunification, according to Article 6 of the Basic Law.[57] In a complicated decision that betrayed a reluctance to restrict the state's capacity to control a major source of unwanted immigration, the court held that Article 6 (which protects the integrity of the family) did not imply a constitutional right of entry for nonresident spouses. But according to the principle of proportionality, nonresident family members still possessed family rights under Article 6 that foreigner law and policy had to respect.[58] In this light, the court upheld the challenged eight-year residence requirement and the one-year waiting rule, arguing that these measures were necessary to guarantee the social and economic integration of the resident

[55] Between 1973 and 1980, the number of foreign workers in West Germany fell from 2.595 million to 2.070 million; during the same period, the absolute number of foreigners increased from 3.966 million to 4.450 million. Ulrich Herbert, *A History of Foreign Labor in Germany, 1880–1980* (Ann Arbor: University of Michigan Press, 1990), 188. Because the number of asylum seekers was small before 1980, only family reunification can account for the increase.

[56] Quoted in *Decision of 12 May 1987* (2 BvR 1226/83, 101, 313/84), p.33f.

[57] The German Constitutional Court thus did not go as far as the French Conseil d'Etat, which (in effect) recognized a constitutional right of family reunification in a famous 1978 decision.

[58] The Court thus argued that even aliens not residing in Germany had rights under the Constitution. As Neuman (fn. 53) notes, this went far beyond the most generous rulings of the U.S. Supreme Court regarding the rights of aliens.

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spouse and to prevent sham marriages, respectively. But the court struck down Bavaria and Baden-Württemberg's three-year waiting rule as disproportionate and destructive of young marriages. Interestingly, the court criticized especially Baden-Württemberg's extension of the three-year waiting rule to the first generation, because it violated the Federal Republic's "special responsibility toward the recruited guest-workers."

The German political process regarding de facto immigration only caught up with positions that had been long established by the legal process. Its development may be read as the successive canceling out of drastic solutions, culminating in the liberalized Foreigner Law of 1990. This liberalization rested not just on a negative recognition of legal constraints but on an emergent moral consensus among the political elites to cope humanely with the consequences of the guest-worker recruitment. That consensus became forged and reinforced in three critical moments when drastic solutions emerged as competitors to a moderate and centrist foreigner policy.

Immediately after the recruitment stop of November 1973, the SPD-led federal government declared that "no legally employed foreign worker . . . shall be forced to return home," while rejecting the proposal to introduce a rotation system.[59] This set the terms for the strictly voluntary schemes of inducing the return migration especially of unemployed guest workers, schemes that were copied from France without much success in the early 1980s. A right-wing proposal for a "reasonable and humanitarian rotation system" emerged during the first society-wide guest worker debate in the early 1980s, allowing the minister of the interior to make the moral obligation toward the guest workers explicit: "[The foreign workers] have not come here spontaneously. Instead, we have brought them into this country since 1955 . . . Even if they are without jobs, we have obligations toward them."[60] A third critical moment was the conservative crusade against the family immigration of children above six years, fought by the hard-line interior minister under the new Kohl government, Friedrich Zimmermann (CSU). Aside from being constitutionally questionable, this drastic proposal crossed the threshold of the morally acceptable. "No comparable country in Europe or North America," said the outraged Commissioner for Foreigner Affairs Lieselotte Funcke (FDP), "would condone such a family-hostile proposition." Pointing at the moral impossibility

[59] *Frankfurter Allgemeine Zeitung*, November 9, 1974.
[60] Gerhard Baum (FDP), quoted in *Das Parlament* 32, no. 9 (1982).

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of implementing this measure, her colleague Burkhart Hirsch (FDP) envisioned "with horror what would happen here if an older child who overstayed a visit was forcibly separated from its parents and thrown out of the country." An unusual veto by Hans-Dietrich Genscher, FDP chief and foreign minister for whom opposition to the interior minister's illiberal foreigner policy became a litmus test of party identity within the new coalition government, buried the proposal.

The new Foreigner Law of 1990 only put into law what administrative and constitutional court rules had long established. The not-a-country-of-immigration formula is nowhere to be found in its text. The objective of encouraging the return migration of foreigners has been dropped. The new law is conceived in the spirit of replacing executive discretion by individual rights to be held against the executive. Foreigners now have statutory (in addition to constitutional) residence and family rights. In several respects, the law went even beyond existing administrative and legal practice. The one-year waiting period for second-generation marriages, okayed by the Constitutional Court in 1987, was abolished. In addition, spouses and children were granted their own residence rights, independent of the head of family. Finally, second- or third-generation foreigners who had temporarily returned home were given the right to return. These measures indicate the independent workings of moral obligations, not just of legal constraints. The new Foreigner Law sticks to the old premise of wrapping up a historically unique immigration episode, while perhaps containing as much liberalization as possible within the inherently limited framework of "foreigner policy."

Firm in Britain

In Britain also, family immigration has been subject to the two conflicting imperatives of controls and rights: closing down a historically unique immigration episode, while respecting the family rights of immigrants. But whereas in the German case the rights came to predominate over the controls imperative, in the British case the opposite happened.[61] There are at least two reasons for this outcome: the peculiar character of postcolonial immigration and the absence of a written constitution protecting individual rights.

Postcolonial immigration has been, from the start, unwanted immigration. Accordingly, its political processing can at no point be under-

[61] This is recognized in the literature as the "exceptional" efficacy of British immigration control. Gary Freeman even argues: "The British experience demonstrates that it is possible to limit unwanted immigration." Freeman, 1994b. "Britain, the Deviant Case," in Cornelius, Martin, and Hollifield (fn. 1), 297.

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stood in terms of client politics,[62] as expressed in the widely noted (and criticized) absence of economic considerations in British immigration policy.[63] In contrast to Germany or France, the first oil crisis marks no turning point in Britain. Primary New Commonwealth immigration was effectively halted before 1973 for entirely political reasons. If Britain had acquired its colonial empire in a fit of absentmindedness, its initial approach to postcolonial immigration was strikingly similar. This immigration was at best passively tolerated by elites who stuck too long to the illusion of an empire in which the sun never sets. Until the passing of the first Commonwealth Immigrants Act in 1962, some 800 million subjects of the Crown, inhabiting one-fourth of the earth's landmass, had the right of entry and settlement in Britain. Only a hostile public, aggrieved by the most dramatic secular decline that a modern nation had ever gone through, shook the elites out of their complacency. As if to compensate for past inattention, successive Tory and Labour governments alike have since stuck to the stern imperative that New Commonwealth immigration had to be stopped. A sense of moral obligation, even guilt, has not been absent among British elites, but it has been channeled into the buildup of an elaborate race relations regime. British immigration policy has never known an active phase of recruitment; it has been from the start a negative control policy to keep immigrants out. Directed against unwanted immigration tout court, British immigration policy has been only weakly affected by moral considerations.

Nor has it been mellowed by legal-constitutional constraints, which is the second reason why the controls prevailed over the rights imperative in British family immigration policy. In Britain, which lacks a written constitution and the principle of legal review, there has been little blockading of the political branches of government by recalcitrant courts. Sovereignty is firmly and unequivocally invested in Parliament, which knows no constitutional limits to its lawmaking powers. In immigration policy, this institutional arrangement entails a dualism of extreme legislative openness and executive closure, which, in the absence of a client machine, is detrimental to the interests of immigrants. Parliamentary openness in the formulation of immigration policy keeps lawmakers within the confines of a pervasively restrictionist public opinion. Once a policy has been decided upon, there is executive closure in its implementation, with the Home Office firmly and uncontestedly

[62] This processing contrasts the German guest-worker policy, which followed the logic of client politics *before* the oil crisis and the recruitment stop of 1973.

[63] See, for example, Sarah Spencer, ed., *Strangers and Citizens* (London: Rivers Oram Press, 1994).

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in charge. In the orthodox view, Britain's "political constitution"[64] is good for democracy because it lets elected officials make decisions that, in other systems, unelected judges make. But in practice it entails executive, rather than parliamentary sovereignty, and it leaves minorities, with or without citizenship, extremely vulnerable to the whims of the majority.

The predominance of the controls over the rights imperative in British family immigration policy can be demonstrated along the fate of Section 1(5) of the 1971 Immigration Act—until its abolishment in 1988, the only family right in British immigration law. It secured for all New Commonwealth men legally settled in Britain before 1973 the right to be joined by their nuclear family from abroad, without any state interference.[65] Section 1(5) thus expressed Britain's special moral and legal obligations toward its primary immigrants. However, when it came into the way of controlling secondary immigration, Section 1(5) was simply abolished by a simple majority vote in Parliament.

The story of the slashing of Section 1(5) is a most extraordinary story because it demonstrates that for the sake of firm immigration controls the British elites have allowed the family rights not just of immigrants, but of all British citizens, to sink below the European standard. It all started with the campaign by the incoming Thatcher government against admitting the foreign husbands and fiancés of female immigrants to Britain. Such asymmetrical treatment of men and women is only a more drastic example of an immigration law shot through with sex discrimination, operating on the premise that the wife should be where the husband as head of the family was. But most importantly, husbands and fiancés were male immigrants, thus blurring the line between secondary and primary immigration. Husbands were perceived as stealth primary immigrants, crowding a strained labor market. Accordingly, the Minister of State defended his new immigration rules of 1979–80, which barred foreign husbands and fiancés from settlement in Britain: "We have a particular aim—to cut back on primary male immigration."[66]

When the European Commission on Human Rights accepted for review the cases of three British immigrant wives harmed by the husband rule, the British government responded with a prophylactic rule

[64] J. A. G. Griffith, "The Political Constitution," *The Modern Law Review* 42, no. 1 (1979).

[65] Section 1(5) of the 1971 Immigration Act stipulated: "The rules shall be so framed that Commonwealth citizens settled in the United Kingdom at the coming into force of this Act and their wives and children are not, by virtue of anything in the rules, any less free to come into and go from the United Kingdom than if this Act had not been passed."

[66] Quoted in P. Thornberry, "Seven Years On: East African Asians, Immigration Rules and Human Rights," *Liverpool Law Review* 2 (1980), 146.

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change in 1982–83. Whereas (in racially discriminatory intent) the old rules exempted from the husbands ban only (white) "patrial" women either born or ancestrally related to the U.K., the new rules allowed all female British citizens, irrespective of birth or ancestry, to be joined by their foreign husbands and fiancés. This could not be the end of the matter, because settled, noncitizen immigrant women still remained separated from their husbands. However, there has never been a concession in British immigration policy that was not offset by a new restriction elsewhere. Already the old immigration rules contained a number of "safeguards" applied to those patrial women who were exempted from the husband ban: most importantly, they and their spouses had to prove that the "primary purpose" of their marriage was not immigration. In the 1982–83 rules, these safeguards were tightened through shifting the burden of proof from the state to the applicant. Only now, the primary-purpose rule could unfold its venomous powers, providing the government with the perfect tool to close the loophole that had opened up at the sex equalization front.

Predictably, the European Court of Human Rights, in its *Abdulaziz, Cabales and Balkandali* landmark decision of May 1985, found that the 1980 immigration rules were discriminatory on the ground of sex. The Strasbourg rule forced the government to remove the last trace of sex discrimination from its immigration rules. As Home Minister Leon Brittan reckoned in the House of Commons, the government faced two sets of choices.[67] The first was between "narrowing" or "widening" the husbands rule: to prevent settled immigrant men from bringing in their spouses, or to permit settled immigrant wives to bring in theirs. Narrowing would imply dishonoring the government commitment to the family rights of settled immigrant men, enshrined in Section 1(5). Accordingly, the government opted for widening. But in that case, the additional annual intake of an estimated two thousand more immigrant husbands had to be offset by new safeguards. That decision predetermined the government's second choice between "abandoning" or "extending" its marriage tests. To drop the tests currently applied to husbands only "would be to go back on our firm commitment to strict immigration control." But if the tests were to be kept, the mandate of the Strasbourg rule was to apply them equally to men and women. As the home minister concluded his sharp syllogistic exercise, "[W]e cannot expect the European Court to endorse . . . the continuation of giving wives preferential treatment by not making them subject to

[67] *Parliamentary Debates*, Commons, vol. 83 (1985), cols. 893–96.

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the same requirements." While a Labour front-bencher railed against the government's "spiteful and vindictive course,"[68] one must admire the cleverness of turning a European court indictment into a means of even firmer immigration control.

As sharp as it appeared, the home minister's syllogism was faulty. The commitment to Section 1(5), which motivated his choice to widen the husband rule, was destroyed by his second choice to extend the safeguards. As long as Section 1(5) was in force, the marriage tests, including the primary-purpose rule, could not be used on immigrant men who had settled in Britain before 1973. If safeguards were to be maintained, the logic of the Strasbourg rule implied the removal of this privilege. Accordingly, even the one bit of generosity in the government's response to the Strasbourg rule was a chimera.

Because Section 1(5), which finally stood in the way of full sex equality in British policy on secondary immigration, had the status of a statutory right, it could be removed only through a change of statutory law. The 1988 Immigration Act successfully removed Section 1(5) in the first change of immigration law in seventeen years. Marked by little noise or protestation, the repeal of Section 1(5) was, nonetheless, an extraordinary event; it had been the only family right that had existed in British immigration law. Only under massive pressure, including from the House of Lords, had it been elevated from discretionary rule to statutory law in the 1971 Immigration Act. Successive governments had reaffirmed their commitment to honor this right.

But all rights are relative in British law, as the painless removal of Section 1(5) by a simple parliamentary majority epitomizes. In dropping it, the government also abandoned the one moral commitment it had undertaken vis-à-vis its primary New Commonwealth immigrants.[69] Now there was no limit to the sway of firm immigration control, affecting even ordinary Britons. Section 1(5) had so far protected white patrial men from the excrutiating marriage tests. Now they were subject to them too. The immigration tail came to beat the vast nonimmigrant rest.

Conclusion

"Can liberal states control unwanted migration", Gary Freeman recently asked.[70] His answer was: yes, but, it depends—yes, because

[68] Gerald Kaufman, quoted in ibid., col. 901.

[69] Interestingly, Minister of State Timothy Renton sought to soften this break of commitment by pointing out that those who now profited from Section 1(5) had been infants in 1971: "Those who are receiving the benefit of section 1(5) are not those who were adult males at the time of the 1971 Act but the young children who had then just been born." Renton, quoted in Ibid., col. 856.

[70] Freeman (fn. 2).

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modern states dispose of considerable infrastructural powers that have not diminished, but increased over time; it depends, because capacity varies across states and across the type of migration subject to control. Such attention to context and detail precludes a quick and generic answer of the yes-or-no variety.

Turning Freeman's 1994 question around, this article explored why, in the cases that liberal states accept unwanted immigration, they actually do so. That liberal states do so on a large scale has been acknowledged in Cornelius, Martin, and Hollifield's "gap hypothesis," which identifies a growing gap between restrictionist policy intent and an expansionist immigration reality. A variety of globalist analyses explained this gap in reference to an externally conditioned decline of sovereignty. These analyses offered generic views of mobilized immigrants and paralyzed states, without identifying the actual mechanisms that make certain states accept certain types of unwanted immigration.

Against the diagnosis of globally limited sovereignty, this article suggested an alternative diagnosis of self-limited sovereignty, starting with Freeman's observation that the dynamics of interest group politics ("client politics") in liberal states makes them inherently expansionist vis-à-vis immigrants. But the political process is only one pillar of self-limited sovereignty, one that is fully entrenched only in a classic settler regime, like the United States. European guest-worker regimes had client politics only until the oil crisis, and a pure postcolonial regime (like Britain) never had it. Thus, other factors must be responsible if such states accept unwanted immigration. In European states, legal constraints in combination with moral obligations toward historically particular immigrant populations—not the logic of client politics—account for continuing (family) immigration despite general zero-immigration policies. But these legal and moral constraints are highly unevenly distributed across European states. Germany, with both a strong constitution celebrating human rights and the moral burdens of a negative history, is an extreme case of self-limited sovereignty, making it one of the most expansive immigrant-receiving countries in the world. Britain has managed to contain unwanted immigration more effectively than any other country in the Western world, but at the cost of trampling on the family rights of her own citizens.

At the risk of stating a tautology, accepting unwanted immigration is inherent in the liberalness of liberal states. Under the hegemony of the United States, liberalism has become the dominant Western idiom in

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the postwar period,[71] indicating a respect for universal human rights and the rule of law. At the same time, nationalist semantics were delegitimized because of their racist aberrations under Nazism. Only from their firm grounding in the key states of the West, could the liberal principles of human rights and the rule of law triumph as "global discourse" around the world. It is therefore strange that in globalist analysis these liberal principles now reappear as *external* constraints on Western states that are reduced to the nationalist, sovereignty-clinching caricatures they perhaps had been hundred years earlier, in the high noon of imperialism. Among the global factors either absent or ineffective in this discussion of the political and legal processing of unwanted immigration has been the "international human rights regime," perhaps the single most inflated construction in recent social science discourse. Of course, its absence may be the flaw of this analysis. But that has to be demonstrated.

[71] Building on John Ruggie's analysis of "embedded liberalism," James Hollifield has suggested that domestic, "rights-based liberalism" has undermined effective immigration controls in Western states. This is similar to the argument presented here. Hollifield, "Migration and International Relations," *International Migration Review* 26, no. 2 (1992).

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CLARIFYING THE FOREIGN AID PUZZLE

A Comparison of American, Japanese, French, and Swedish Aid Flows

By PETER J. SCHRAEDER, STEVEN W. HOOK, and BRUCE TAYLOR

CONTRARY to the expectations of many, the global network of foreign aid has outlasted the end of the cold war. Despite cutbacks in many bilateral aid programs, particularly that of the United States, annual aid flows as monitored by the Organization for Economic Cooperation and Development (OECD) have maintained a consistent level of about $60 billion in the mid-1990s. Many recipients have graduated to the role of donors and have undertaken their own aid programs. Multilateral aid flows, meanwhile, have increased, as the European Union, regional development banks, and other organizations have assumed greater responsibility for channeling funds to developing countries. Equally important, new foreign aid recipients, such as the reconstructed states of Eastern Europe and the former Soviet Union, have entered into an ongoing competition for concessional funding against traditional recipients in Africa, Latin America, and South Asia, whose developmental needs remain acute.

As aid donors and recipients continue adapting to the post–cold war environment, foreign aid remains embroiled in controversy throughout the industrialized North, as aid administrators, politicians, and the general public debate the proper role of foreign aid as an instrument of foreign policy. In the United States this debate resulted in deep cuts in aid transfers to most developing countries. Both the debate and the reductions in aid reflected the rise of an isolationist streak in U.S. public opinion, which historically had tended to oppose sending assistance abroad when "so much needs to be done here at home."

Other industrialized countries maintained their aid programs in the early 1990s but subjected them to increased scrutiny and redirected aid to achieve tangible policy objectives. In the case of Sweden—known as

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the "darling of the Third World" because of its strong record of disbursing foreign aid on favorable terms—arguments were increasingly raised that such flows should serve Swedish domestic economic interests. Elites in developing countries, meanwhile, stepped up efforts to demonstrate that past aid flows had been effective and had satisfied conditionalities imposed by donors, and to convince donors of their ability to convert aid resources into long-term economic growth. Indeed, growing doubts within the industrialized North about the utility of providing aid in the post–cold war era sparked a virtual bidding war among developing countries, as new and traditional recipients sought to obtain and maintain their shares of foreign aid in an increasingly competitive international environment.

Unfortunately, the ongoing debate over the foreign aid regime remains trapped in something of an intellectual vacuum given the lack of scholarly understanding of the *determinants* of foreign aid programs. While normative critiques of aid are numerous, critical analysis based on comprehensive empirical evidence is rare. Thus, several questions have remained open in the foreign aid puzzle. Among them: What has been the comparative record of foreign aid disbursements by the northern industrialized democracies? Which motivating factors have been of greatest importance in the formulation and implementation of these policies? Were ostensible cold war factors, such as the strategic importance of recipient countries, the primary driving forces of these policies, or were other factors, such as economics and culture, salient even during the cold war? Most important for our purposes, did foreign aid policies differ with the specific interests of the particular donor country, or is it possible to distinguish cross-national trends?

Ironically, none of these questions suffers from a lack of documentary evidence; aid statistics from national and multinational sources are not in short supply. Yet beyond idiographic and often normatively loaded denunciations of foreign aid duplicity,[1] empirically based scholarship has largely been confined to individual case studies[2] or has been limited to the *recipient side* of the aid equation, most notably in terms of examining the relationship between economic dependence and political compliance within developing states.[3] Donor aid programs, by contrast,

[1] See, for example, Marcus Linear, *Zapping the Third World: The Disaster of Development Aid* (London: Pluto Press, 1985).

[2] See, for example, Steven C. Poe, "Human Rights and Economic Aid under Ronald Reagan and Jimmy Carter," *American Journal of Political Science* 36 (February 1992).

[3] See, for example, Kenneth J. Menkhaus and Charles W. Kegley, Jr., "The Compliant Foreign Policy of the Dependent State Revisited," *Comparative Political Studies* 21 (October 1988); and Bruce E. Moon, "Consensus or Compliance? Foreign Policy Change and External Dependence," *International Organization* 39 (Spring 1985).

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have generally been viewed as unique and noncomparable. As a result, except for the pioneering work of McKinlay[4] and the more recent analysis of Hook,[5] there has been a dearth of systematic and comparative empirical analyses of the *donor side* of the equation. Common sense suggests that there can be informed debate over the rapidly changing foreign aid regime of the post–cold war era only when we clearly understand the underlying factors that motivated the evolution and development of that regime during the cold war years. In short, how can we speak of altering aid policies when it is unclear what considerations have heretofore driven these policies?

The notion that self-interest pervades the aid calculations of industrialized states has become axiomatic in the scholarly literature. Various interests, in fact, have often been proclaimed explicitly by donor governments and lamented by recipients. But this notion begs the question of which of many potential self-interests are at play in the execution of aid policy. This study informs the foreign aid debate by empirically analyzing the motivating factors behind the aid policies of four industrialized democracies: France, Japan, Sweden, and the United States. We use an inductive approach that tests for a variety of foreign aid determinants to review the volume and direction of the aid flows of our four cases relative to the profiles of aid recipients in Africa during the 1980s, the final decade of the cold war. We then identify empirically grounded linkages between the foreign policy interests of these donors and their observable behavior in disbursing foreign aid.

We choose the 1980s as our point of departure because that decade serves as a unique "hinge" period between the cold war and the transformed international environment of the 1990s. And we designate 1989, the historic year that marked the fall of the Berlin Wall and the beginning of the end of communism, as the cutoff date to ensure that the results are not confounded by changes within the international system that accompanied the end of the cold war. The four donor countries—France, Japan, Sweden, and the United States—are selected as the cases for analysis because all are northern industrialized democracies and all are recognized as major foreign aid players within the African context. Finally, the African continent is chosen as the target of assistance because of the large number and diversity of countries contained therein,

[4] R. D. McKinlay, "The Aid Relationship: A Foreign Policy Model and Interpretation of the Distributions of Official Bilateral Economic Aid of the United States, the United Kingdom, France, and Germany, 1960–1970," *Comparative Political Studies* 11 (January 1979).

[5] Steven W. Hook, *National Interest and Foreign Aid* (Boulder, Colo.: Lynne Rienner, 1995).

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as well as a desire to control for potential subsystem differences within the various regions of the Third World.

An important goal of this analysis is to bridge the gap between the quantitatively oriented researcher who seeks to uncover cross-national trends that often blur country-specific distinctions and the regional specialist who often seeks qualitative knowledge of a particular country at the expense of empirical tests that are generalizable to other cases and regions. To this end, the study draws upon two groups of variables. One set—humanitarian need, strategic importance, and economic potential—is traditionally employed in the empirical foreign aid literature; the second set incorporates three additional variables—cultural similarity, ideological stance, and region—recognized by regional specialists as important to a comprehensive understanding of the international interactions between the African continent and the northern industrialized democracies.

In short, the general empirical and the more regional-focused case study literatures are joined together to offer a comprehensive quantitative and qualitative analysis of foreign aid interactions between the industrialized northern democracies and the African continent. While some of the findings reviewed below challenge conventional wisdom regarding aid flows, others reinforce existing assumptions. In both cases, the presumed linkage between donor self-interest and aid flows is subjected to rigorous statistical testing and analysis, which yields a stronger basis for evaluating the policy outcomes.

Literature Review: Collecting Pieces of the Foreign Aid Puzzle

An overview of three general bodies of international relations theory clearly demonstrates that scholars hold a priori assumptions that lead them to create and adhere to competing paradigms about which interests motivated donor involvement in the foreign aid regime of the cold war era.[6]

Adherents of the realist paradigm—the dominant conceptual lens for understanding the foreign aid regime of the cold war era—assume that aid policies are driven primarily by the strategic interests of nation-states.[7] According to this viewpoint, international relations are conducted

[6] See Alain Noël and Jean-Philippe Thérien, "From Domestic to International Justice: The Welfare State and Foreign Aid," *International Organization* 49 (Summer 1995).

[7] See, for example, Lloyd D. Black, *The Strategy of Foreign Aid* (Princeton: D. Van Nostrand, 1968). For a more recent example, see Nicholas Eberstadt, *Foreign Aid and American Purpose* (Washington, D.C.: American Enterprise Institute, 1988).

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in a Hobbesian state of nature in which national security and self-preservation become the primary, if not the exclusive, objectives. As a result, foreign aid is perceived as only minimally related to recipient economic development and the humanitarian needs of recipient countries are downplayed. Although classical realists traditionally conceive of security in terms of alliances and military strength—the so-called high politics of international relations—neorealist scholars more recently have underscored the equal if not greater importance of understanding the economic dimension of national security.[8] In short, whereas classical realists argue that aid priorities are driven primarily by perceptions of the political-military strategic importance of recipient states, neorealists also underscore the point that the recipients' economic potential is critical to understanding changing global balances, and therefore serves as one of several factors potentially affecting northern aid priorities.

The idealist paradigm and its neoidealist offshoots challenge realist assumptions in virtually every respect, advancing a vision that is more positive regarding the motivations of individual and state actors and more optimistic about their potential for cooperative relations.[9] To idealists, a conception of interstate relations based on relentless competition both ignores the record of cooperation that emerged in the late twentieth century and serves as a self-fulfilling prophecy of future conflict. The debate between realists and idealists has predictably found expression in the area of foreign assistance. Specifically, scholars operating within the idealist paradigm and its neoidealist offshoots assert the overriding importance of humanitarian need as the cornerstone of many foreign aid programs.[10] Unlike their realist counterparts, these scholars are particularly optimistic about the potential utility of foreign aid for ameliorating Third World poverty and promoting broadly shared economic development.

A third, more broadly defined, neo-Marxist paradigm is based on assumptions about the centrality of economic interests in the foreign aid calculations of donor states.[11] Unlike their neorealist counterparts, these

[8] See Robert Gilpin, *The Political Economy of International Relations* (Princeton: Princeton University Press, 1987).

[9] See, for example, Charles W. Kegley, Jr., ed., *Controversies in International Relations Theory: Realism and the Neoliberal Challenge* (New York: St. Martin's Press, 1995); and idem, "The Neoidealist Moment in International Studies? Realist Myths and the New International Realities," *International Studies Quarterly* 37 (June 1993).

[10] See, for example, David Halloran Lumsdaine, *Moral Vision in International Politics: The Foreign Aid Regime, 1949–89* (Princeton: Princeton University Press, 1993); and David Louis Cingranelli, *Ethics, American Foreign Policy and the Third World* (New York: St. Martin's Press, 1993).

[11] See, for example, Robert E. Wood, *From Marshall Plan to Debt Crisis: Foreign Aid and Development Choices in the World Economy* (Berkeley: University of California Press, 1986); and Theresa Hayter and Catherine Watson, *Aid: Rhetoric or Reality?* (London: Pluto Press, 1985).

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theories—ranging from dependency to world systems to classical Marxist—share assumptions about the role of capitalist exploitation in enhancing the power of elites in both industrialized and developing countries. Most important, neo-Marxist scholars argue that foreign aid constitutes an extension of highly exploitative North-South relationships that either preserve or widen economic disparities between wealthy states and Third World countries.

Although these characterizations clearly oversimplify and obscure important divisions both within and between these general bodies of theory, our brief summary is simply meant to be illustrative of why so little consensus exists concerning the foreign aid regime of the cold war era: competing paradigmatic assumptions serve as the explicit (in the case of researchers) or implicit (in the case of policymakers) points of reference when judging the merits of a particular foreign aid program. Most important, these competing paradigms lead to different prescriptive conclusions concerning the future evolution of the foreign aid regime.[12] Whereas realists and neorealists usually argue that criteria of humanitarian need should be minimized in favor of security-related interests, idealists and neoidealists tend to defend humanitarian criteria and are more likely to dismiss the importance of security-related factors. In the extreme, many neo-Marxists argue that foreign aid should be abolished in its current form, and that international organizations should control redistribution of economic resources in the pursuit of global economic equality.

The foreign aid puzzle is further clouded when one turns to the largely descriptive, case study–oriented literature that seeks to explain the motivations behind donor aid programs. As concerns the United States, the dominant view of the qualitative literature is that ideologically inspired cold war interests, most notably containment of the spread of communism, served as the cornerstone of U.S. foreign aid policies in the Third World. It is generally agreed that a recipient country's ideological stance (that is, as anticommunist) and willingness to participate in a host of strategic alliances directed against the former Soviet Union and its allies were the driving forces of a foreign aid program that led to the transfer of nearly $500 billion in funds from 1945 to 1995.[13]

[12] See Roger C. Riddell, *Foreign Aid Reconsidered* (Baltimore: Johns Hopkins University Press, 1987).

[13] See Steven W. Hook and John Spanier, *American Foreign Policy since World War II*, 14th ed. (Washington, D.C.: CQ Press, 1998); and Peter J. Schraeder, ed., *Intervention into the 1990s: U.S. Foreign Policy in the Third World* (Boulder, Colo.: Lynne Rienner, 1992).

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The consensus in the case of Japan is that economic self-interest (*kokueki*) was the critical motivating factor of foreign aid policies during the post–World War II period.[14] As a rising economic superpower with the world's second largest gross national product (GNP), Japan clearly sought to use foreign aid in its quest for global economic supremacy. According to Stirling, Japan conducted a "business foreign policy" in which overlapping groups of governmental and corporate actors have actively coordinated an "industrial policy" targeted at enhancing exports through concessional aid.[15] Scalapino found that, due to the freedom of maneuver offered by Japan's protection under a U.S.-led military umbrella, Japanese leaders were among the first in the postwar era to reconstitute "national security" in largely economic terms.[16] In short, Japanese policymakers were able to pursue a neomercantilist foreign aid strategy that concentrated on "securing Japan's regional geoeconomic interest while skirting any political entanglements."[17]

In the case of Sweden, the consensus of the case study literature is that Swedish foreign aid policy was principally driven by humanitarian goals of broadly shared economic development and the provision of basic human needs (BHN).[18] Swedish aid is also described as being driven by ideological concerns. In sharp contrast to the negative ideological and military goals of anticommunism and containment of the former Soviet Union pursued by American policymakers, however, Swedish aid policies are described as driven by a more positive "solidarity tradition" that resulted in the cultivation of relationships with progressive socialist and Marxist leaders.[19] Finally, Sweden's distinctive role within the foreign aid arena is attributed to its special status as a middle power within the international system. Enjoying a higher level of socioeconomic development than most countries but still lacking the financial resources of the great powers, Sweden could not afford to provide foreign aid to all regions of the world, let alone to all countries within a particular region.[20] Like other middle powers, Sweden was

[14] Sukehiro Hasegawa, *Japanese Foreign Aid: Policy and Practice* (New York: Praeger, 1975), 3.

[15] John Stirling, "Japan and Asia: A 'Business Foreign Policy,'" *Asian Affairs* (July–August 1981), 354.

[16] Robert A. Scalapino, "The Foreign Policy of Modern Japan," in Roy A. Macridis, ed., *Foreign Policy in World Politics*, 8th ed. (Englewood Cliffs, N.J.: Prentice-Hall, 1992), 206.

[17] William R. Nester, *Japan and the Third World: Pattern, Power and Prospects* (New York: St. Martin's Press, 1992), 233.

[18] Bo Karre and Bengt Svensson, "The Determinants of Swedish Aid Policy," in Olav Stokke, ed., *Western Middle Powers and Global Poverty: The Determinants of the Aid Policies of Canada, Denmark, the Netherlands, Norway and Sweden* (Uppsala, Sweden: Scandinavian Institute of African Studies, 1989), 231.

[19] Stokke (fn. 18), 2–3.

[20] Ibid.

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forced to carve out an international niche by focusing its foreign aid on carefully selected regions or individual countries.[21]

In the case of France, the qualitative literature underscores the importance of two sets of factors. First, the overwhelming consensus is that French policymakers sought to promote the *rayonnement* (spread) of French culture, most notably the French language.[22] Often referred to as French "cultural nationalism" or support for *la francophonie* (a greater French-speaking community),[23] such a policy ensured that a large portion of foreign aid was directed to former French colonies and protectorates, as well as to other countries where French constitutes one of the national languages (such as the former Belgian colonies in Central Africa). The literature also suggests that economic interests were perceived by French policymakers as both parallel and integral to the promotion of French culture. Toward this end, foreign aid constituted "one component of a remarkably integrated system of economic relationships," most notably trade, that was predicated on maintaining and enhancing a network of cultural ties within the francophone world.[24]

The primary shortcoming of the qualitative literatures devoted to explaining American, Japanese, Swedish, and French foreign aid policies is their reliance on the case study approach, which precludes generalization across the field of donor countries. When this shortcoming appears in combination with the competing conclusions of the theoretical literature, both policymakers and researchers find themselves facing a highly confusing jumble of conflicting claims and assumptions. Specifically, these four discrete sets of literature suggest that foreign aid policies are unique and noncomparable, dependent only on the particular case.

The confusion has not been resolved by empirical research. One problem is that the majority of statistical analyses has been confined to individual case studies, most frequently the U.S.[25] Similar to their qualitative counterparts, such studies prevent generalization across the field of donor countries. Second, even those statistical analyses that focus on several cases fail to capture the most important dimensions of the aid relationship cited within the qualitatively oriented case study literature,

[21] See C. Pratt, ed., *Middle Power Internationalism: The North-South Dimension* (Montreal: McGill-Queen's University Press, 1990).

[22] Edward A. Kolodziej, *French Foreign Policy under de Gaulle and Pompidou: The Politics of Grandeur* (Ithaca, N.Y.: Cornell University Press, 1974), 479.

[23] Alfred Grosser, *French Foreign Policy under de Gaulle* (Boston: Little, Brown, 1965), 61.

[24] Theresa Hayter, *French Aid* (London: Overseas Development Institute, 1966), 43.

[25] See, for example, James H. Lebovic, "National Interests and U.S. Foreign Aid: The Carter and Reagan Years," *Journal of Peace Research* 25 (June 1988); and Neil R. Richardson, *Foreign Policy and Economic Dependence* (Austin: University of Texas Press, 1978).

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for example, region, culture, and ideology.[26] In the case of French foreign aid policies, for example, none of the statistical analyses tests for the role of culture (that is, support for *la francophonie*), despite the fact that this dimension is described by regional specialists as the cornerstone of French foreign aid policy, especially in Africa. A goal of this comprehensive analysis, as we have said, is to bridge the gap between quantitatively oriented empirical research and the qualitative research of regional specialists.

Research Strategy

We seek to clarify the foreign aid puzzle through a comparative empirical analysis of American, Japanese, French, and Swedish foreign aid policies toward Africa. As summarized in Table 1, our research suggests that there are six key pieces to the foreign aid puzzle. Any cross-national test must therefore include valid indicators that capture these six elements, in addition to choosing a valid indicator of foreign aid that is comparable across the four cases.

The choice of a comparable dependent variable for the four cases is facilitated by the fact that the OECD provides a yearly summary of official development assistance (ODA) provided by the northern industrialized democracies.[27] Aggregate volumes of ODA (logged and expressed as a percentage of the recipient country's GNP) provided by the U.S., Japan, France, and Sweden to thirty-six African recipients from 1980 to 1989 therefore serve as the dependent variable of the analysis.[28] An incremental control variable with a one-year lag is devised using the foreign aid data; it serves as an independent variable that controls for the amount of aid that the recipient received in the previous year.

Six groups of independent variables are constructed from both interval and nominal data to test for the possible determinants of the foreign aid policies of our four cases.[29] The first three sets of variables are constructed using data traditionally employed in empirical foreign aid studies.

[26] McKinlay (fn. 4) compares the cases of the U.S., the United Kingdom, France, and Germany. Hook (fn. 5) compares the cases of the U.S., France, Japan, and Sweden.

[27] OECD, *Geographical Distribution of Financial Flows to Developing Countries* (Paris: OECD, 1981–95). Security assistance is omitted from the current study because donor interests in extending these forms of aid are more transparent than are the objectives behind transfers of economic aid. It is precisely the *ambiguity* inherent in economic aid that we attempt to rectify through our cross-national analysis.

[28] The countries in our data set include Algeria, Angola, Benin, Burkina Faso, Burundi, Cameroon, Central African Republic, Congo, Egypt, Ethiopia, Gabon, Ghana, Ivory Coast, Kenya, Liberia, Libya, Madagascar, Malawi, Mali, Mauritius, Morocco, Mozambique, Niger, Nigeria, Rwanda, Senegal, Sierra Leone, Somalia, Sudan, Tanzania, Togo, Tunisia, Uganda, Zaire, Zambia, and Zimbabwe.

[29] In order to minimize the problems associated with utilizing cases of differing size in regression, all of the interval-level variables have been standardized to either GNP or population of recipient country

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TABLE 1
PRIMARY DETERMINANTS OF FOREIGN ASSISTANCE
(BASED ON LITERATURE REVIEW)

	Humanitarian Need	*Strategic Importance*	*Economic Potential*	*Cultural Similarity*	*Ideological Stance*	*Region*
IR theory literature						
realism		X				
neorealism		X	X			
idealism	X					
neo-Marxism			X			
Qualitative (case study) literature						
United States		X			X	
Japan			X			
Sweden	X				X	X
France			X	X		
Quantitative (empirical) literature						
United States		X				
Japan			X			
Sweden	X					
France			X			

HUMANITARIAN NEED

Foreign aid is most often rhetorically portrayed by policymakers in industrialized states as a humanitarian effort to alleviate the suffering of those in distress. To many policymakers, this is the most, if not the only, appropriate use of foreign aid. Building upon the public policy pronouncements of foreign aid donors, the concept of humanitarian need is therefore operationalized in this study by two widely adopted measures: (1) the average life expectancy of the target country's population; and (2) the daily caloric intake of that population. In short, if humanitarian need serves as the cornerstone of donor aid programs, one would expect to find aid strongly targeted toward those African countries in which populations are suffering from short life expectancy and low levels of average caloric intake.[30]

(except for the trade variable, which has been standardized to total imports). This corrects for the heteroskedastic distribution of the raw data and decreases the importance of potentially influential cases.

[30] The source of this data is the World Bank's *World Development Report* supplemented by the World Bank's *World Tables of Economic and Social Indicators* (1950–88), ICPSR Dataset 9300.

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Strategic Importance

It is widely believed, even if not acknowledged openly by policymakers, that foreign aid is used as a tool to enhance the national security of aid donors. The recipient's strategic importance to the donor country is therefore important to our understanding of foreign aid and is operationalized in this study by three widely adopted measures: (1) maintenance of a security alliance between donor and recipient, as witnessed by the signing of formal defense or military access agreements; (2) military spending as a percentage of the GNP of the recipient country; and (3) percentage of the recipient country's population that forms part of the military.[31] The existence of a security alliance is indicative of donor perceptions of the strategic importance of the recipient country and should lead to greater levels of aid. The remaining two measures reflect the assumption that donors interested in promoting their security would favor recipients that maintain relatively large military establishments in terms of overall financial resources and conscription, and therefore would be able to act as surrogates for the donor within their specific regions.

Economic Potential

Foreign aid has also been justified by policymakers in terms of its potential contribution to the donor's economy. As in the case of the strategic importance variable, the primary assumption is that donors interested in promoting their own economic security would favor recipients that represent the most powerful economies in their region. In addition, policymakers have also increasingly recognized the need to demonstrate that foreign aid will contribute to the economic health of the donor country, most notably by promoting trade and investment. The concept of economic interests is therefore operationalized by two measures: (1) the recipient country's GNP per capita (logged); and (2) the level of trade with the donor country as measured by the recipient's imports from the donor country as a percentage of total imports (also logged). If the economic potential of the recipient country is operative in the foreign aid equation, one would expect to find aid directed disproportionately toward those countries enjoying a large GNP

[31] The source for military spending is the *SIPRI Yearbook: World Armaments and Disarmament* (various years), published by the Stockholm International Peace Research Institute. Military force data are from *World Military Expenditures and Arms Transfers*, the annual report of the U.S. Arms Control and Disarmament Agency.

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per capita and importing significant amounts of goods from the donor country.[32]

The variables identified and tested for in the classic empirical foreign aid literature provide the point of departure for our test of the determinants of foreign aid during the 1980s. Yet our review of the case study literature and the findings of regional specialists suggest that additional variables are necessary for a comprehensive understanding of American, Japanese, French, and Swedish foreign aid policies toward Africa. Specifically, three sets of nominal data—cultural similarity, ideological stance, and region—are recognized as potentially important determinants of donor aid policies and therefore serve as the basis for constructing three additional sets of variables to be included in our general test.

Cultural Similarity

An important outcome of the colonial history of the African continent is that almost every African country is overlaid in varying degrees by the national culture of the former metropole, in such areas as educational structure, legal system, and, perhaps most important, national language. The resulting cultural overlay of a particular colonial heritage is therefore recognized as theoretically playing an important role in the contemporary international relations of the African continent, particularly when one is assessing the aid policies of a former colonial power such as France. In this regard, colonial heritage serves as a useful indicator of the impact of culture on foreign aid policies.[33] In order to test for this variable, this study divides African countries according to a fivefold classificatory scheme developed by Moss and Ravenhill: (1) former British colonies; (2) former French colonies; (3) former Portuguese colonies; (4) former Belgian colonies; and (5) those "previously nonassociated countries" (PNAC) that remained largely free from colonial rule (Ethiopia and Liberia).[34]

Ideological Stance

Ideology may also play an important role in the allocation of foreign aid in that donors may logically be more prone to provide support to coun-

[32] The source of trade data is *Direction of Trade Statistics*, a report of the International Monetary Fund. GNP per capita data are derived from *World Military Expenditures and Arms Transfers*, provided by the U.S. Arms Control and Disarmament Agency.

[33] Joanna Moss and John Ravenhill, "Trade Diversification in Black Africa," *Journal of Modern African Studies* 27 (September 1989).

[34] Ibid.

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tries that share their ideological beliefs. Thus, for example, one would expect capitalist regimes in the industrialized North to neglect socialist and Marxist regimes in favor of ties with capitalist regimes. Similarly, socialist regimes would be expected to seek out socialist allies, and Marxist regimes, Marxist allies. To test for the impact of ideology, this study divides African countries according to the threefold typology of African regimes devised by Young: (1) self-proclaimed African-Marxist regimes; (2) self-proclaimed African-Socialist regimes (ranging from the Islamic-inspired socialism of Muammar Qadaffi's Libya to the "humanist" socialism of Kenneth Kaunda's Zambia); and (3) African-Capitalist regimes (a residual category of a variety of capitalist, free market–oriented regimes).[35] Although this classification certainly blurs important distinctions between members of each ideological group, it captures the major differences in ideological orientation that may be reflected in terms of donor attention—and levels of foreign aid—especially during the cold war era.

Region

Finally, regional identification plays a potentially important role as a determinant of aid flows. It is clear that if several countries comprise a natural collective—because of shared geographical features, historical ties, or a common religion (such as Islam in North Africa)—they are more likely to trade and share security interests with one another than with countries outside of their general region.[36] The logical outgrowth of this regional reality is that those similar features may be of importance to foreign aid donors seeking a common policy for all the countries within that zone. This study tests for the importance of this variable by dividing African countries according to a fivefold typology: (1) North Africa, (2) East Africa, (3) Southern Africa, (4) Central Africa, and (5) West Africa. As explained by Grundy, these groupings "can be justified for diverse and sometimes idiosyncratic reasons, among them culture in the broadest sense, history, geography, convenience, and tradition."[37]

A pooled cross-sectional time-series design is employed to assess the impacts of these six sets of variables on donor aid policies both across

[35] Crawford Young, *Ideology and Development in Africa* (New Haven: Yale University Press, 1982).

[36] See Kenneth Grundy, "The Impact of Region on Contemporary African Politics," in Gwendolen M. Carter and Patrick O'Meara, eds., *African Independence: The First Twenty-five Years* (Bloomington: Indiana University Press, 1986).

[37] Ibid., 99.

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the recipients and over time. The nominal variables are included in the regressions as j-1 dummy variables, where j is the number of categories in each variable. Because of the theoretically important nature of these variables and of the need to examine the effects of all the categories for each variable, two regressions are run for each donor country, with different reference categories for each nominal variable.[38] These dummy variables are coded using effects coding, rather than the usual binary coding. With the use of effects-coded dummy variables, the coefficients of the interval-level variables and those of the nonreference categories of the nominal variables do not differ between regressions. Thus the full results of both regressions for each donor country are not reported.

Generalized Least Squares, Error Components (GLSE) is the most appropriate method for our spatially dominant model, which comprises relatively many cross sections and relatively few time points.[39] GLSE addresses the problems of this type of analysis, heteroskedasticity and autocorrelation, by specifying an error structure which assumes that there is no correlation of errors between countries at any point in time and that the correlation of errors over time within each country is the product of these unit effects.[40]

Data Results: Understanding Pieces of the Foreign Aid Puzzle

The data results outlined in Table 2 demonstrate that different combinations of factors influenced the foreign aid policies of donor states. While some of these interests were distinct to each donor state, others overlapped across the donor countries in question. Most important, while some of the findings challenge conventional wisdom, others reinforce existing assumptions. The impact of these factors is best analyzed by presenting the individual results associated with each donor country, followed by a discussion of general cross-national trends in the conclusion.

[38] For equation 1, the reference categories are former British colonies for Colonial Heritage; self-proclaimed Marxist countries for Ideology; and North African countries for Region. For equation 2, the reference categories are former French colonies for Colonial Heritage; capitalist countries for Ideology; and West African countries for Region.

[39] See Alexander M. Hicks, "Introduction to Pooling," in Thomas Janoski and Alexander M. Hicks, eds., *The Comparative Political Economy of the Welfare State* (New York: Cambridge University Press, 1994); and Cheng Hsaio, *Analysis of Panel Data* (New York: Cambridge University Press, 1986).

[40] GLSE accounts for this error structure by estimating autocorrelation as the ratio of the unexplained sum of squares from the OLS solution less the unexplained sum of squares from the Least Squares with Dummy Variables solution to the unexplained sum of squares from the OLS solution. Calculations were made with the Microcrunch statistical analysis program.

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TABLE 2
DETERMINANTS OF FOREIGN ASSISTANCE TO AFRICA
(GLSE REGRESSION RESULTS)

	United States		*Japan*		*Sweden*		*France*	
Determinants	*b*	*t*	*b*	*t*	*b*	*t*	*b*	*t*
Constant	1.4532**	4.4554	0.6454	1.8847	1.0633**	4.0532	1.8641**	5.6866
Incremental								
lagged dependent variable	0.4084**	8.3430	0.2615**	4.9784	0.0223	0.4581	0.1819**	3.6850
Humanitarian need								
caloric intake	−0.0053	−0.7234	−0.0024	−0.2720	−0.0068	−1.2276	0.0055	0.7553
life expectancy	−0.0011	−0.2514	0.0183**	3.5729	0.0017	0.5073	−0.0024	−0.5489
Strategic importance								
military spending (% of GNP)	−0.0009	−0.1126	0.0054	0.5559	0.0006	0.0953	0.0056	0.6903
military force (% of pop)	0.0184	1.8719	0.0080	0.7214	0.0064	0.8494	0.0216*	2.2639
security alliance	0.1622*	2.4487	—	—	—	—	0.0436	0.3783
Economic potential								
GNP per capita (logged)	−0.4466**	−3.9379	−0.5466**	−4.4499	−0.2704**	−2.9998	−0.4574**	−4.2844
trade (% of total, logged)	0.2766*	3.9452	0.2303*	2.2303	0.1663*	2.0755	−0.2760*	−2.2491
Ideological stance								
Marxist	−0.1196	−1.7096	−0.1381	−1.8731	−0.0521	−0.8654	0.0284	0.3729
socialist	0.0237	0.4188	0.0233	0.3797	0.1223*	2.5394	−0.1139	−1.9031
capitalist	0.0959**	2.0278	0.1147*	2.3617	−0.0702	−1.8203	0.0855	1.8522

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Determinants	*United States*		*Japan*		*Sweden*		*France*	
	b	*t*	*b*	*t*	*b*	*t*	*b*	*t*
Cultural similarity								
British	−0.0394	−0.5507	0.0324	0.4302	−0.0893	−1.4014	−0.2682**	−3.8098
French	0.0765	1.0659	0.0836	1.0851	−0.1089	−1.7129	0.7449**	7.2121
Portuguese	−0.1472	−1.0012	−0.0870	−0.5561	0.3837**	2.9067	0.0066	0.0472
Belgian	0.0673	0.5080	0.0673	0.4799	−0.2595*	−2.1791	0.0910	0.6821
PNAC[a]	0.0428	0.3754	−0.0964	−0.7839	0.0739	0.7200	−0.5743**	−4.7642
Region								
Northern	−0.0574	−0.5635	−0.1584	−1.4272	−0.1086	−1.2417	−0.1904	−1.7470
Western	0.0139	0.2182	0.0496	0.7314	−0.2141**	−3.7082	0.0225	0.3636
Central	−0.1095	−1.2087	−0.0917	−0.9523	−0.0620	−0.7758	0.1938*	2.0819
Southern	0.0094	1.4829	0.0110	0.1500	0.3486**	4.0079	−0.0413	−0.4402
Eastern	0.1436	0.1353	0.1895	1.8465	0.0360	0.5824	0.0154	0.2329
R^2	0.432		0.298		0.389		0.534	
Adjusted R^2	0.402		0.263		0.358		0.509	
F	14.406		8.539		12.804		21.704	
F Significance	0.001		0.001		0.001		0.001	

*p<0.05; **p<0.01

[a]PNAC = previously nonassociated countries, which remained largely free from colonial rule (Ethiopia and Liberia).

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The United States: A Cold Warrior with Economic Interests

The statistical analysis confirmed widely held presumptions of U.S. foreign aid as being driven by strategic and ideological interests associated with the cold war. Not surprisingly, the existence of a security alliance (significant at the .05 level) ensured the generous provision of foreign aid. The most notable example of such an arrangement was the Carter administration's negotiation of military access agreements with Egypt, Kenya, Somalia, and the Sudan at the end of the 1970s.[41] These security agreements served as the basis for extensive foreign aid relationships during the 1980s, although only the agreements with Kenya and Egypt lasted throughout the decade.

The ideological stance of the recipient country within the context of the cold war also constituted an important factor in determining U.S. aid policies.[42] A positive relationship (significant at the .01 level) was found for capitalist regimes. During the decade of the 1980s the self-proclaimed Marxist regimes of Ethiopia, Mozambique, and Angola were deprived of foreign aid by the U.S. government, whereas capitalist countries such as Kenya, Senegal, and Zaire were treated as ideological allies deserving of U.S. aid. Socialist regimes were neither strongly supported nor strongly opposed. This finding is clarified by calculating the percentages of U.S. aid provided to each type of ideological regime during the 1980s. Whereas capitalist regimes annually received 88 percent of all U.S. aid to the African continent, Marxist and socialist regimes received only 6 percent each.

Specialists in U.S. foreign policy toward Africa will also not be surprised by the existence of a negative relationship (significant at the .01 level) between U.S. aid levels and the GNP per capita of African recipients. American aid was consistently provided to African regimes that had "consistently worse economic growth rates" than those enjoyed by other African countries.[43] For example, one of the largest recipients of U.S. aid in 1989 was the Zairian regime of Mobutu Sese Seko, an authoritarian leader who in 1965 assumed power in a military coup d'état and who increasingly relied upon the Zairian armed forces and foreign aid to maintain himself in power as his popular support progressively

[41] See Jeffrey A. Lefebvre, *Arms for the Horn: U.S. Security Policy in Ethiopia and Somalia, 1953–1991* (Pittsburgh, Pa.: University of Pittsburgh Press, 1991).

[42] Peter J. Schraeder, *United States Foreign Policy toward Africa: Incrementalism, Crisis and Change* (Cambridge: Cambridge University Press, 1994), 248.

[43] Michael Clough, *Free at Last? U.S. Foreign Policy toward Africa and the End of the Cold War* (New York: Council on Foreign Relations Press, 1994), 77.

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eroded throughout the 1980s.[44] Similar to the foreign policy relationships cultivated with other authoritarian African allies, such as Egypt, Liberia, Somalia, and the Sudan, which were among the top recipients of U.S. foreign aid during the 1980s, the preoccupation of American policymakers with anticommunism led them to overlook rising economic deterioration and government repression as long as African leaders supported U.S. containment policies.[45]

However, the positive relationship between U.S. aid levels and trade with recipient countries (significant at the .05 level) is not readily explained by classic interpretations that emphasize the predominance of strategic and ideological factors over economic interests. This finding suggests the necessity of further exploring economically based interpretations of U.S. foreign policy toward Africa and seeking a more nuanced explanation. One such recent analysis from the neo-Marxist paradigm has sought to explain U.S. intervention in Zaire during the 1960s by applying what the author refers to as a "business-conflict" model, which in essence argues that competing economic interests as advanced by private corporations are primarily responsible for changes in policy.[46] Although substantive and theoretical critiques call into question the validity of this specific model as applied to Zaire,[47] it nonetheless constitutes part of an important new stream of research focusing on the economic determinants of U.S. foreign policy toward Africa. In this regard, such a pattern is also consistent with the neorealist argument that donors are attracted to the economic potential of recipient states, most notably in terms of trade. Indeed, several of the top recipients of U.S. foreign aid during 1989, such as Nigeria, Ghana, Senegal, and Kenya, were also those countries with which the U.S. enjoyed important trade relationships relative to other countries in Africa. In sum, the picture of U.S. foreign aid policies that emerges from the statistical analysis is that of a strategically and ideologically driven superpower that nonetheless was also influenced by economic concerns.

JAPAN: THE PRIMACY OF ECONOMIC INTERESTS

The statistical results clearly support the dominant view in the literature that economic self-interest (*kokueki*) was the key determinant of

[44] Sean Kelly, *America's Tyrant: The CIA and Mobutu of Zaire* (Washington, D.C.: American University Press, 1993).

[45] Clough (fn. 43), 76–100.

[46] David N. Gibbs, *The Political Economy of Third World Intervention: Mines, Money, and U.S. Policy in the Congo Crisis* (Chicago: University of Chicago Press, 1991).

[47] See Crawford Young's review of Gibbs (fn. 46), in *Journal of Interdisciplinary History* 24 (Autumn 1993), 401–3. See also Peter J. Schraeder, "Reviewing the Study of U.S. Policy towards Africa: From Intellectual 'Backwater' to Theory Construction," *Third World Quarterly* 14, no. 4 (1994).

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Japanese foreign aid policies toward Africa during the 1980s. The positive relationship (significant at the .05 level) between Japanese aid levels and trade underscores an active Japanese "business foreign policy" that targeted foreign aid to countries in which Japanese trade interests were high. The top recipients of Japanese aid during the 1980s can be divided into three types of trade categories: (1) important sources of raw materials vital to Japanese industry, such as copper in Zambia and Zaire, uranium in Niger, and chromium in Madagascar; (2) potential future sources of such raw materials, including chromium in the Sudan and oil in Gabon; or (3) major economic markets, such as Kenya and Nigeria, capable of absorbing Japanese exports. Japanese policymakers were especially concerned about ensuring access to African raw materials. As a result, the Metal Mining Agency of the Ministry of International Trade and Industry (MITI) and the Japan Petroleum Corporation took the lead in identifying projects designed to meet the mineral and oil needs of Japanese industry.[48]

The positive relationship (significant at the .05 level) between foreign aid levels and capitalist regimes is also consistent with the apolitical nature of Japanese foreign aid policies. Unlike the cold war–oriented aid policies of their American counterparts, the Japanese predilection for capitalist regimes was determined not by an ideological disdain for Marxist or socialist regimes but rather by the propensity of capitalist countries to maintain free-market economies that welcomed foreign trade and investment. Despite official Japanese willingness to seek mutually beneficial ties with any country regardless of ideology, the socialist and to a greater degree the Marxist countries on average maintained relatively closed, command-style economies that were more hostile to foreign trade and investment with the capitalist West.[49] The apolitical nature of Japanese aid policies was further demonstrated by the fact that Japan on average extended 21 percent of its aid to socialist regimes during the 1980s (as opposed to an average of 6 percent for the U.S. during this same period). The Japanese government extended aid in particular to influential socialist countries of little if any direct economic interest to Japan if they were regionally influential and therefore important to regional economic policy. For example, Tanzania was consistently one of the top recipients of Japanese foreign aid during the 1980s (in 1981 it was the top recipient) despite the lack of meaningful economic ties. Japanese leaders were attracted by former president

[48] Nester (fn. 17), 238–39.
[49] See Young (fn. 35).

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Julius Nyerere's role as an influential leader in Southern Africa, arguably the most lucrative regional market in Africa.[50]

Two unexpected results merit discussion. First, the positive relationship (significant at the .01 level) between life expectancy and Japanese foreign aid underscores the fact that Japanese aid was directed to countries that were relatively better off than their neighbors, as reflected by this widely utilized measure of social welfare. One simple explanation is that the targets of Japanese aid were often countries which on average maintained relatively better health and other social-related infrastructures. This was especially so with socialist countries, such as Tanzania, that committed significant amounts of resources to rural health programs and led the continent in terms of literacy programs.[51]

A second explanation is potentially derivative of the fact that Japanese aid policies were heavily focused on the former British colonies, which on average had higher life expectancies, despite the fact that the direct relationship between British colonial past and Japanese foreign aid was not statistically significant. A breakdown of Japanese aid by the recipient's colonial past reveals that approximately 70 percent of Japanese aid to Africa during the 1980s went to former British colonies, with former French colonies on average receiving 23 percent. In sharp contrast, former Belgian, Portuguese, and PNAC countries that on average had the highest mortality rates due to civil wars (Angola, Ethiopia, Liberia, and Mozambique) or severe ethnic conflict (Burundi, Rwanda, and Zaire) together received only 7 percent of all Japanese foreign assistance during the 1980s. An obvious reason for Japan's initial focus on anglophone countries was the facility of doing business in a common language (English). Francophone economies by contrast were more difficult to penetrate because of powerful French monopolies that were actively supported by the French government.

A second unexpected finding revolved around the negative relationship (significant at the .01 level) between aid levels and GNP per capita. This finding is accounted for by a return to the cornerstone of Japanese interests—promoting trade—and our discussion of social infrastructure. First, Japanese trade interests (and thus foreign aid) were primarily focused on monomineral export industries that usually served as the lifeblood of the African country in question (for example, copper in Zambia). Throughout the 1980s, however, these monomineral and monocrop industries were prone to severely deteriorating terms of

[50] See, for example, Kweku Ampiah, "Japanese Aid to Tanzania: A Study of the Political Marketing of Japan in Africa," *African Affairs* 95 (1996).

[51] See Young (fn. 35), 97–182.

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trade, which had a dramatic impact on per capita GNP rates.[52] Indeed, prior to the democratic changes of the 1990s these extractive industries more often than not benefited the ruling elite and/or party. As a result, the countries that were the targets of Japanese aid were often resource rich, but those riches did not translate into broad-based economic affluence (that is, rising per capita GNPs). Even in the socialist countries that invested heavily in their nations' social infrastructure (for example, Tanzania), gains in the social realm almost always came at the expense of a deteriorating general economy and therefore of declining per capita GNP rates. Returning to our example of Tanzania, one of the primary recipients of Japanese aid during the 1980s, significant strides in promoting mass literacy and the provision of basic human needs coincided with a failing overall economy that witnessed an annual average decline of 7 percent in agricultural output. As succinctly noted in one recent analysis, Tanzanian policymakers "essentially sacrificed growth for equity."[53]

Sweden: A Middle Power in Southern Africa

The statistical analysis clearly supports the theoretical expectations of middle-power theory in explaining Swedish foreign aid behavior. Illustrative of the necessity of middle powers to restrict the geographical scope of their limited foreign aid budgets, one region—Southern Africa (signigicant at the .01 level)—represented the centerpiece of Swedish foreign aid efforts during the 1980s. In 1989, for example, six of the top Swedish foreign aid recipients in Africa (Angola, Botswana, Lesotho, Mozambique, Zambia, and Zimbabwe) were located in the Southern African region and accounted for 48 percent of all Swedish aid to the African continent. This middle-power focus on Southern Africa was reinforced by a special interest in the former Portuguese colonies of Angola and Mozambique, thereby explaining the positive relationship (significant at the .01 level) between aid levels and the Portuguese component of the variable of culture. According to Black, Sweden's interest in Portuguese Africa constituted a classic example of "niche playing" by a middle power.[54] Whereas "the Anglo-American world was concen-

[52] See Richard Sandbrook, *The Politics of Africa's Economic Recovery* (New York: Cambridge University Press, 1993).

[53] Harvey Glickman, "Tanzania: From Disillusionment to Guarded Optimism," *Current History* 96, no. 610 (1997), 217.

[54] David Black, "Little Big Power? Swedish Policy toward Southern Africa in the 1980s" (Paper presented at the annual convention of the International Studies Association, Atlanta, Ga., March 31–April 4, 1992), 6.

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trated on South Africa, Rhodesia [Zimbabwe] and Namibia," Sweden was able to pursue a "special role" in the ignored backwaters of Portuguese Africa.[55]

As expected, the ideological stance of a recipient country also emerged as an important determinant of Swedish aid. As witnessed by the positive relationship between aid levels and the socialist component of the ideological variable (significant at the .05 level), Sweden demonstrated an ideological predilection to support progressive, socialist-oriented regimes, such as Algeria, Tanzania, Uganda, and Zambia, and it targeted in particular those liberation movements opposed to minority white rule in the Southern African region. This so-called "solidarity tradition"[56] similarly contributed to significant increases in foreign aid to Zimbabwe and Namibia when minority white-ruled governments were replaced by new political systems enshrining black majority rule.[57] As further demonstrated by a breakdown of aid by ideological type, progressive (that is, socialist and Marxist) regimes annually received approximately 80 percent of Sweden's foreign aid to Africa during the 1980s. In contrast, countries maintaining close ties with the minority white-ruled regimes, most notably Malawi and Swaziland, were largely ignored in the Swedish aid hierarchy.

Sweden's focus on progressive regimes, especially the former Portuguese colonies of Southern Africa, explains the negative relationship (significant at the .01 level) between levels of foreign aid and recipient GNP per capita. The former Portuguese colonies in Southern Africa found themselves beset by ongoing civil wars, funded by their neighbors, that devastated their economies. In the case of Angola, the national economy was destroyed by an ongoing civil war between the self-proclaimed Marxist government of Agostinho Neto and guerrilla forces known as the National Union for the Total Independence of Angola (UNITA), which operated with U.S. and South African support. In this regard, UNITA constituted part of an overall South African strategy of regional destabilization that inevitably was also directed against other progressive recipients of Swedish foreign aid, most notably Mozambique, Zambia, and Zimbabwe. Although the long-term goal of this strategy—maintenance of the apartheid system in South

[55] Ibid.

[56] Tor Sellstrom, "Some Factors behind Nordic Relations with Southern Africa," in Bertil Oden and Harold Othman, eds., *Regional Cooperation in Southern Africa: A Post-Apartheid Perspective* (Uppsala, Sweden: Scandinavian Institute of African Studies, 1989).

[57] Black (fn. 54), 1.

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Africa—ultimately failed, the short-term strategy of regional economic destabilization was highly successful.[58]

Two results strongly question the conventional wisdom concerning Swedish aid policies and require further discussion. First, the statistical analysis rejected official Swedish rationales that the humanitarian need of recipient states served as the guiding principle of Swedish aid policies. Neither a country's standard of caloric intake nor its level of life expectancy influenced Swedish aid calculations. Observers have generally accepted official government statements that Swedish aid was driven by humanitarian concerns in part because Sweden's government from the 1930s to 1991 (except for a brief period from 1976 to 1982) was dominated by the highly progressive Social Democratic Party, which in turn reflected the progressive nature of Swedish political culture more generally. As demonstrated by the statistical analysis, however, the progressive nature of Swedish political culture ensured first and foremost that ideologically progressive regimes were favored by the Swedish political elite. In addition, the financial constraints imposed by the limited size of Sweden's economy ensured that these efforts would be focused in Southern Africa.

The lack of a statistically significant positive relationship between aid levels and the humanitarian needs of recipient countries confounds conventional wisdom. Further analysis suggests that this pattern may be explained by a second result that also challenges widespread perceptions: the positive relationship (significant at the .05 level) between aid levels and trade with recipient countries. This finding may be most surprising to observers of Swedish foreign aid because of the repeated pledges on the part of the Swedish government to separate the humanitarian aspirations of foreign aid from short-term economic benefits for itself. Thus, any benefits from the transfers were to be only a "welcome side effect," not an ostensible goal. This principled approach was modified in the late 1970s and the early 1980s, however, after the Swedish economy was weakened by steep increases in petroleum prices and growing fiscal strains within the Swedish government, which for the first time in several decades was forced to borrow money from international markets. Whereas other major donors responded by diversifying aid transfers to include recipients in the Middle East, Swedish policymakers sought to make future transfers more compatible with domestic economic interests. Among such reforms, the previously scorned prac-

[58] See William Minter, *Apartheid's Contras: An Enquiry into the Roots of War in Angola and Mozambique* (London: Zed Press, 1994).

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tice of tying Swedish aid to the purchase of Swedish goods and services or to prescribed financing arrangements became more acceptable as an element of aid policy.[59]

France: Complex and Multifaceted Engagement

The portrayal of France in the literature as first and foremost promoting the *rayonnement* (spread) of French culture is strongly supported by the statistical results. A positive relationship (significant at the .01 level) emerges for the category of former French colonies. In contrast, negative relationships (significant at the .01 level) emerged between levels of French aid and countries with a British colonial past and the PNAC group, despite the fact that France devoted approximately 11 percent of its African aid to former British colonies.

An examination of the raw data further clarifies the importance of cultural similarity in French aid policies. In 1989 the top ten African recipients of French aid—Algeria, Morocco, Ivory Coast, Senegal, Cameroon, Mali, Gabon, Madagascar, Chad, and Guinea—were all former French colonies or protectorates. Throughout the 1980s France on average devoted approximately 82 percent of its annual African aid budget to countries considered part of the francophone world. The determination of France to strengthen *la francophonie* is perhaps best demonstrated by the annual summit of the presidents of France and the francophone countries of Africa, the nineteenth of which was held in Ouagadougou, Burkina Faso, in December 1996. According to Martin, these summits serve as the centerpiece of Franco-African cultural relations, primarily because they are widely portrayed as family reunions designed to strengthen already close personal relationships between the French president and his African counterparts.[60]

The importance of culture was reinforced by the strong positive relationship (significant at the .05 level) uncovered for Central Africa. All but one of the cases (the Sudan) that constitute this region were francophone countries, including most notably the former Belgian colonies of Burundi, Rwanda, and Zaire. Beginning in the 1980s, the Mitterrand administration undertook a conscious policy of more effectively integrating these three former Belgian colonies into the French sphere of influence. As a result, increasing amounts of French aid throughout the 1980s were lavished on Zaire ($461 million), Burundi ($243

[59] See, for example, Katie Verlin Laatikainen, "The Disillusionment of Nordic Aid," in Steven W. Hook, ed., *Foreign Aid toward the Millennium* (Boulder, Colo.: Lynne Rienner, 1996).

[60] Guy Martin, "Continuity and Change in Franco-African Relations," in John W. Harbeson and Donald Rothchild, eds., *Africa in World Politics* (Boulder, Colo.: Westview Press, 1995), 14.

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million), and Rwanda ($199 million). Zaire especially became a diplomatic battleground as the U.S. and France competed for influence. As explained in the memoirs of Jacques Foccart, the architect of French policy in Africa under Charles de Gaulle and Georges Pompidou, the French perceived the emergence of Mobutu Sese Seko as the unparalleled leader of Zaire during the 1960s as facilitating the penetration of Anglo-Saxon influence into the largest country of francophone Africa, and therefore as a clear victory for the U.S. over French interests.[61] French aid policies during the 1980s were designed to reverse this perceived failure.

The statistical analysis further demonstrates that a recipient's strategic importance underlay these cultural factors. French aid levels were positively associated with military force as a percentage of population (significant at the .05 level). Despite public pronouncements to the contrary, most notably at the beginning of the Mitterrand presidency,[62] this finding reflects French support for the militarization of its former colonies, including the generous provision of arms and military *coopérants* for training purposes and the direct intervention by French military forces to ensure maintenance of the status quo.[63] Critics of French foreign aid policies are quick to note that an overriding concern with military factors led to "creative ambiguity" as concerns support for democracy in its former colonies.[64] When countries renounced their privileged relationship with France, as Guinea did when it voted in 1958 against inclusion in the revised French community of states (the so-called *loi-cadre* act), French retribution was swift; in this case de Gaulle cut off all aid. In essence, as long as authoritarian leaders continued to underscore their commitment to close ties with France, they were unlikely to find themselves under heavy pressure from Paris to democratize.

In contrast to the expectation of the case study literature, the statistical findings suggest that economic interests did not play a role in French foreign aid policies toward Africa. The patterns instead revealed negative relationships between levels of aid and trade with recipients (significant at the .05 level) and the GNP per capita of recipients (significant at the .01 level). Expectations of the importance of economic interests in French aid calculations are based on the fact that France in

[61] Foccart (with Philippe Gaillard), *Foccart parle: entretiens avec Philippe Gaillard* (Paris: Fayard, 1990), 1:310–11.

[62] See Jean-François Bayart, *La politique africaine de François Mitterrand* (Paris: Karthala, 1984).

[63] John Chipman, *French Power in Africa* (Cambridge: Basil Blackwell, 1989).

[64] Martin (fn. 60).

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1947 organized thirteen former French colonies and Equatorial Guinea into an organization currently known as the Franc Zone: a supranational financial system in which France continues to serve as a central bank and in which a common currency—the *Communauté Financière Africaine* (CFA) franc—is tied to the French franc and guaranteed by the French treasury.

Closer analysis suggests that cultural considerations (that is, maintaining *la francophonie* at all costs) were critical to French support for the Franc Zone, effectively explaining why French policymakers continued to make aid transfers primarily to Franc Zone members despite the deterioration of member economies and trade relationships throughout francophone Africa. The subjugation of economic factors to cultural ideals even within the Franc Zone was clearly demonstrated by France's unwillingness throughout the 1980s to devalue the highly overvalued CFA franc—despite the consensus among economists that such action was necessary to stimulate the Franc Zone's economic competitiveness and promote greater trade links with France.[65] The first such devaluation of the CFA, by 50 percent, only occurred in 1994 and suggested a growing French focus on economic factors in the post–cold war era.[66]

The Foreign Aid Puzzle in Perspective

The cross-national analysis clearly demonstrates that the origins of the foreign aid policies of the northern industrialized democracies are complex and varied. Despite the fact that the four donor states under review maintained shared democratic values and a common industrial base of development, notable differences as concerns historical backgrounds (for example, French colonialism in Africa) and positions within the international system (for example, the U.S. as a strategic hegemon and Sweden as a middle power) ensured that foreign aid policies were influenced by different combinations of foreign policy interests. No two cases were alike, a fact that reinforces the need for detailed scrutiny of the individual cases.

Yet empirical patterns that emerged in three of our four cases allow us to draw some general conclusions about the nature of the foreign aid regime of the final cold war decade. First, the results clearly reject the rhetorical statements of policymakers within the industrialized North who publicly assert that foreign aid is an altruistic tool of foreign policy.

[65] Patrick and Sylvianne Guillaumont, *Zone franc et développement africain* (Paris: Economica, 1984).

[66] Kaye Whiteman, "France/Africa: The Party's Over," *Africa Report* 39 (March–April 1994), 13–18.

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Rather than demonstrating a positive relationship between foreign aid and recipient social-welfare factors, our findings discounted the role of humanitarian need in the aid policies of these industrialized democracies. In the cases of France, Japan, and the United States, the fact that foreign aid does not stem from altruism is hardly a new finding—despite vigorous past efforts on the part of French, Japanese, and American policymakers to project such an image abroad. Indeed, in the case of Japan, aid was targeted toward countries with relatively high levels of life expectancy, the opposite of what one would expect if humanitarian interests were operative. However, the lack of a relationship between foreign aid levels and humanitarian need in the case of Sweden cast doubt on the preponderant view that Sweden and other middle powers, most notably Canada and the other Nordic countries, were exceptional in this regard. Specifically, our findings call for a thorough reexamination of the prevailing assumption within the aid community that the Nordic countries and other middle powers maintained a unique, humanitarian-based set of policies within the foreign aid regime of the 1980s.[67]

The second cross-national trend confirmed that ideology played an important role in the foreign aid regime of the 1980s. In the American, Japanese, and Swedish cases, there existed a positive relationship between foreign aid levels and the ideological posture of African regimes. Whereas U.S. foreign aid policies were targeted toward capitalist regimes willing to support Washington's containment policies, Swedish policymakers were particularly interested in strengthening like-minded progressive regimes in Southern African and Japanese aid policies favored capitalist over Marxist regimes. The French case emerged as an anomaly. Yet despite the fact that ideological factors as conceptualized in this study ultimately did not influence French policies toward Africa, French policymakers approached the necessity of ensuring the spread of French culture with the same ideological fervor adopted by U.S. policymakers to prevent the spread of communism during the cold war era. In this regard, *la francophonie* could be characterized as a culturally based ideology that strongly influenced all other French interests in Africa.

A related yet less pervasive cross-national trend was the importance of strategic interests in the foreign aid regime of the 1980s. As correctly surmised in the qualitative case study literature, neither Japanese nor

[67] For further discussion, see Marijke Breuning, "Words and Deeds: Foreign Assistance Rhetoric and Policy Behavior in the Netherlands, Belgium, and the United Kingdom," *International Studies Quarterly* 39, no. 2 (1995).

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Swedish policymakers based their foreign aid policies on the strategic importance of recipient states, although Japan did pursue a foreign aid relationship with Tanzania based not on economic self-interest but on calculations of Tanzania's regional diplomatic influence. Only among American and French policymakers—representing states with aspirations to global political leadership—did security interests play an important role in foreign aid calculations. In the case of the U.S., these pretensions emerged in the form of security alliances with strategic allies willing to join Washington in its quest to contain communist and revolutionary expansion throughout Africa. In the case of France, aid supported growing local military forces designed to keep pro-French elites in power and therefore ensure continuation of the status quo.

A fourth cross-national trend evident in all four cases was a negative relationship between aid levels and GNP per capita, clearly rejecting the expectation that northern donors favored those recipients that represented the most powerful economies in their region. Taken at face value, these results could be interpreted as verifying the importance of humanitarian need in the calculations of foreign aid administrators. Specifically, although GNP per capita is utilized as an economic variable, its inclusion as a humanitarian interest variable could suggest that aid has been targeted toward the neediest countries (that is, those with a low GNP per capita). However, a careful reading of the case study literatures and a comprehensive view of the statistical relationships suggest that factors other than humanitarian need explain this possibility. In the case of the U.S., for example, the top recipients of U.S. foreign aid were anticommunist, authoritarian regimes that, like those regimes supported by Japan, France, and Sweden (albeit for different reasons), were confronted with the ongoing deterioration of economies marked by corruption and the negative repercussions of externally imposed structural adjustment policies.[68]

Perhaps the most surprising cross-national trend was the emergence of trade as an important determinant of northern aid policies. Whereas this result was anticipated in the case of Japan, it clearly confounded the conventional wisdom concerning American and Swedish foreign aid policies. However, when one focuses on the evolution of domestic politics in each of our four cases during what was earlier referred to as the "hinge" decade of the 1980s, the emergence of trade interests in retrospect is more understandable. Even with Sweden, long recognized by

[68] See Sandbrook (fn. 52).

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foreign aid opponents and proponents alike as a special case within the global foreign aid regime, increasingly vocal domestic actors were demanding a positive linkage between foreign aid and the promotion of the Swedish economy, most notably in terms of trade. According to the OECD, this trend was prevalent throughout the industrialized northern democracies by the end of the 1980s.[69] In this regard, the end of the cold war merely laid bare the growing importance of trade in a foreign aid regime that was already being readjusted to meet the new economc challenges of the 1990s.

The findings of this study not only help to clarify the foreign aid regime of the 1980s but also provide us with a base from which to undertake further analyses of earlier cold war decades and particularly the post–cold war decade of the 1990s. For example, the decline of the majority of Marxist and socialist regimes throughout the African continent in the aftermath of the fall of the Berlin Wall in 1989 will almost certainly lessen the impact of the role of ideology in foreign aid calculations, most notably in the cases of the U.S. and Sweden. In the case of France, the devaluation of the CFA franc in 1994—the first such devaluation since the creation of the Franc Zone—perhaps suggests a decline in the overriding importance of culture and the beginning of greater French concern with economic issues in an increasingly competitive post–cold war economic environment. One would therefore expect trade interests to become more salient in French foreign aid calculations during the 1990s. Indeed, it is likely that the statistical importance of trade as seen during the 1980s—regardless of whether this decade was unique during the cold war era or constituted part of an ongoing trend—will intensify in the post–cold war era.

A final note is required concerning the generalizability of our results beyond the African subset of the global donor-recipient foreign aid regime. Our study was based on the assumption that countries constituting a specific region such as Africa share certain characteristics that differentiate that subsystem from other geographical regions and therefore potentially affect northern aid policies differently. For example, will the interests driving French policy be different if the region of analysis (for example, Central America) is not part of what France historically has considered to be part of its African *chasse gardée* (private hunting ground)? Similarly, will U.S. policy be driven by different interests if, rather than focusing on a region considered peripheral to U.S. foreign policy interests (for example, Africa), the region of analysis constitutes

[69] OECD, *Development Cooperation* (Paris: OECD, 1991).

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part of what those policymakers historically have considered to be part of the U.S. backyard (for example, Central America and the Caribbean)? Definitive answers to these questions will be possible only when further empirical research focuses on donor-recipient relations in other regions of the developing South during both the cold war and post–cold war eras.

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Review Article

THE CONSTRUCTIVIST TURN IN INTERNATIONAL RELATIONS THEORY

By JEFFREY T. CHECKEL*

Martha Finnemore. *National Interests in International Society*. Ithaca, N.Y.: Cornell University Press, 1996, 149 pages.

Peter Katzenstein, ed. *The Culture of National Security: Norms and Identity in World Politics*. New York: Columbia University Press, 1996, 562 pages.

Audie Klotz. *Norms in International Relations: The Struggle against Apartheid*. Ithaca, N.Y.: Cornell University Press, 1995, 183 pages.

FOR the past decade a central locus of contention within international relations has been the neorealist-neoliberal debate. This exchange has been fruitful and cumulative, allowing proponents of the two research programs to sharpen arguments while simultaneously shedding light on key issues of world politics, for example, the conditions under which relative or absolute gains–seeking behavior occurs.[1]

By and large, the constructivists under review would concur with such a characterization. Their critique of neorealists and neoliberals concerns not what these scholars do and say but what they ignore: the content and sources of state interests and the social fabric of world politics. Reaching back to earlier theoretical traditions (the English school,

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[1] See Robert Keohane, *After Hegemony: Cooperation and Discord in the World Political Economy* (Princeton: Princeton University Press, 1984); David Baldwin, ed., *Neorealism and Neoliberalism: The Contemporary Debate* (New York: Columbia University Press, 1993); Robert Powell, "Anarchy in International Relations Theory: The Neorealist-Neoliberal Debate (Review Article)," *International Organization* 48 (Spring 1994); and "Promises, Promises: Can Institutions Deliver?" *International Security* 20 (Summer 1995).

World Politics 50 (January 1998), 324–48

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some versions of liberalism) and reaching out to new disciplinary foundations (sociology), constructivists seek to expand theoretical discourse.

Regarding both the books under review and constructivism more generally, this essay advances three claims. First, I argue that constructivism has succeeded in broadening the theoretical contours of IR. By exploring issues of identity and interest bracketed by neoliberalism and neorealism, constructivists have demonstrated that their sociological approach leads to new and meaningful interpretations of international politics. Moreover, constructivists have rescued the exploration of identity from postmodernists. By arguing for its importance using methods accepted by the majority of scholars, they have been able to challenge mainstream analysts on their own ground. Second and more critically, I show that constructivism lacks a theory of agency. As a result, it overemphasizes the role of social structures and norms at the expense of the agents who help create and change them in the first place.

Third, I argue that constructivism remains a method more than anything else. The central challenge for these scholars is theory development. Having demonstrated that social construction matters, they must now address when, how, and why it occurs, clearly specifying the actors and mechanisms bringing about change, the scope conditions under which they operate, and how they vary across countries. To accomplish this task, constructivists must integrate their insights and assumptions with middle-range theory. Otherwise, the empirical ad hocism that plagues their current work will remain.

The essay is organized as follows. It begins by defining constructivism and its approach to the study of global politics. Next, it considers the empirical contribution of constructivists, focusing on the three books under review. Finally, the review explores several issues constructivists must address if they are to mount a sustained challenge to their competitors in contemporary IR.

The Social Construction of International Politics

The constructivist critique of neorealism and neoliberalism reaches well beyond the level-of-analysis argument of either Image I (individual) or Image II (domestic politics) theorists. Constructivism is concerned not with levels per se but with underlying conceptions of how the social and political world works. It is not a theory but an approach to social inquiry based on two assumptions: (1) the environment in which agents/states take action is social as well as material; and (2) this setting can provide agents/states with understandings of their interests (it can

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"constitute" them). Put differently, these scholars question the materialism and methodological individualism upon which much contemporary IR scholarship has been built.

The first assumption reflects a view that material structures, beyond certain biological necessities, are given meaning only by the social context through which they are interpreted. Consider nuclear weapons—the ultimate material capability. Constructivists argue that it is not such weapons themselves that matter. After all, the United States worries very little about the large quantity of nuclear weapons held by the British; however, the possibility that North Korea might come into possession of even one or two generates tremendous concern.[2]

The second assumption addresses the basic nature of human agents and states, in particular, their relation to broader structural environments. Constructivists emphasize a process of interaction between agents and structures; the ontology is one of mutual constitution, where neither unit of analysis—agents or structures—is reduced to the other and made "ontologically primitive." This opens up what for most theorists is the black box of interest and identity formation; state interests emerge from and are endogenous to interaction with structures.[3]

Constructivists thus question the methodological individualism that underpins both neoliberalism and neorealism. This agent-centered view asserts that all social phenomena are explicable in ways that involve only individual agents and their goals and actions; the starting point of the analysis is actors (states) with given properties. Ontologically, the result is to reduce one unit of analysis—structures—to the other—agents.[4]

Also implicit in many constructivist accounts is a model of human and state behavior where rule-governed action and logics of appropriateness prevail. Such logics involve reasoning by analogy and metaphor and are not about ends and means. Under them, agents ask "What kind of situation is this?" and "What should I do now?"—with norms helping to supply the answers. Norms therefore constitute states/agents, providing them with understandings of their interests.[5]

[2] Alexander Wendt, "Constructing International Politics," *International Security* 20 (Summer 1995), 73.

[3] For an excellent discussion of this black box for neoliberals and neorealists written by a theorist sympathetic to their enterprise, see Powell (fn. 1), 317–24.

[4] On neoliberalism's methodological individualism, see Volker Rittberger, Andreas Hasenclever, and Peter Mayer, "Interests, Power, Knowledge: The Study of International Regimes," *Mershon International Studies Review* 40 (October 1996), 183–87. For that of neorealism, see Alexander Wendt, "The Agent-Structure Problem in International Relations Theory," *International Organization* 41 (Summer 1987), 340–44.

[5] On logics of appropriateness, see James March and Johan Olsen, *Rediscovering Institutions: The Organizational Basis of Politics* (New York: Free Press, 1989).

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Scholars of rational choice, by contrast, use a behavioral model based on utility maximization: when confronted with various options, an agent picks the one that best serves its objectives and interests. Much rational choice research ("thick" rationalism) also makes assumptions about the content of these interests, typically that they are material goods such as power or wealth. State (agent) interests are given a priori and exogenously. Norms and social structures at most constrain the choices and behavior of self-interested states, which operate according to a logic of consequences (means-ends calculations).[6]

It is important to note that constructivists do not reject science or causal explanation; their quarrel with mainstream theories is ontological, not epistemological. The last point is key, for it suggests that constructivism has the potential to bridge the still vast divide separating the majority of IR theorists from postmodernists. With the latter, constructivists share many substantive concerns (role of identity and discourse, say) and a similar ontological stance; with the former, they share a largely common epistemology. Constructivists thus occupy a middle ground between rational choice theorists and postmodern scholars.[7]

To illuminate these differences between constructivists and other schools, it is helpful to explore their understanding of central terms. Consider "norms," a concept that has gained much currency in IR scholarship over the past decade. While realists see norms as lacking causal force, neoliberal regime theory argues that they play an influential rule in certain issue-areas. However, even for neoliberals, norms are still a superstructure built on a material base: they serve a regulative function, helping actors with given interests maximize utility. Agents (states) create structures (norms and institutions).[8] For constructivists, by contrast, norms are collective understandings that make behavioral claims on

[6] On the last point, see Barry Weingast, "A Rational Choice Perspective on the Role of Ideas: Shared Belief Systems and State Sovereignty in International Cooperation," *Politics and Society* 23 (December 1995); and Dennis Chong, "Rational Choice Theory's Mysterious Rivals," in Jeffrey Friedman, ed., *The Rational Choice Controversy: Economic Models of Politics Reconsidered* (New Haven: Yale University Press, 1996). Useful introductions to rational choice are Jon Elster, "The Market and the Forum," in Elster, ed., *Foundations of Social Choice Theory* (Cambridge: Cambridge University Press, 1986); James Morrow, *Game Theory for Political Scientists* (Princeton: Princeton University Press, 1994), chap. 2; and Donald Green and Ian Shapiro, *Pathologies of Rational Choice Theory: A Critique of Applications in Political Science* (New Haven: Yale University Press, 1994), chap. 2.

[7] See, among others, Alexander Wendt, *Social Theory of International Politics* (New York: Cambridge University Press, forthcoming), chaps. 1–2. There is a good bit of confusion regarding these central tenets of constructivism; see, for example, John Mearsheimer, "The False Promise of International Institutions," *International Security* 19 (Winter 1994–95), 37–47.

[8] For example, Stephen Krasner, ed., *International Regimes* (Ithaca, N.Y.: Cornell University Press, 1983). My comparisons here are limited to mainstream IR, since it has been vastly more influential than postmodern work in shaping the field.

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actors. Their effects reach deeper: they constitute actor identities and interests and do not simply regulate behavior. As explanatory variables, their status moves from intervening to independent (Finnemore, chaps. 3, 4; Klotz, chap. 6, for example). Norms are no longer a superstructure on a material base; rather, they help to create and define that base. For constructivists, agents (states) and structures (global norms) are interacting; they are mutually constituted.[9]

Taken together, these moves by constructivists—their questioning of methodological individualism and materialism, along with a continuing commitment to the scientific enterprise—have brought a breath of fresh air to thinking about world politics, in ways accessible to nearly all scholars. A key issue, however, is whether such new perspectives allow these researchers to explain important international puzzles and phenomena and thereby demonstrate the empirical value of their approach.

Puzzles and Anomalies in World Politics: The Constructivist Contribution

The books under review seek to make empirical contributions in three areas: the role of international institutions and organizations (Finnemore); international security (Katzenstein volume); and the effects of international norms (Klotz). To evaluate their success, it is necessary to establish a baseline for comparison.

On international institutions, the dominant school for well over a decade has been neoliberal institutionalism. Since the publication of Keohane's *After Hegemony*, these scholars have shown increasing sophistication in exploring the conditions under which institutions are created in the first place and the various roles they play in world politics.[10]

Partly out of a concern for theoretical parsimony, neoliberal institutionalists have purposely bracketed several issues, including the sources of state interests, which are given by assumption. These scholars also grant only a limited role to institutions, considering them to be the creation of self-interested states that at most constrain choices and strate-

[9] Strictly speaking, my discussion of norms as intervening or independent variables is not correct, as constitutive effects (A enables or makes possible B) are not captured by standard causal terminology (A causes B). See Wendt (fn. 2), 72. In practice, however, empirical constructivists use the terms interchangeably; see, for example, Mlada Bukovansky, "American Identity and Neutral Rights: From Independence to the War of 1812," *International Organization* 51 (Spring 1997).

[10] See, among others, Keohane (fn. 1); Lisa Martin, *Coercive Cooperation: Explaining Multilateral Economic Sanctions* (Princeton: Princeton University Press, 1992); and Beth A. Simmons, "Why Innovate? Founding the Bank for International Settlements," *World Politics* 45 (April 1993).

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gies. Virtually ignored is the possibility that the effects of institutions reach deeper, to the level of interests and identity.

The baseline for the second issue-area—international security—is difficult to establish with precision, given the turbulence stirred up within this subfield by the end of the cold war. Certainly realism and rationalism have been and remain dominant here, but scholars have refined their analyses by paying more attention to domestic politics.

Important studies have enriched our understanding of security by exploring the role of ideology and threat perception, coalition politics, cognitive variables, and perceptions. While some accuse these scholars of smuggling into their analyses sociological and cultural variables emphasized by constructivists, they are nonetheless still united in a common commitment to rationalism and materialism. On the former, key actors (elite decision makers or groups within the state) make cost/benefit calculations and choose strategies designed to maximize certain interests; on the latter, perceptual, ideational, and cultural factors are ultimately parasitic on a material base.[11]

Research on international norms, the third area addressed by the books under review, has been heavily influenced by regime analysis. These scholars have typically demonstrated that regime norms constrain the behavior of states; they are an explanatory variable that intervenes between underlying power distributions and outcomes.[12]

Work on epistemic communities and, more recently, on transnational policy networks has brought research on international regimes closer to the insights offered by constructivists. It does so by suggesting that regime norms have deeper cognitive effects. Studies of this sort are arguably still a minor current within regime theory; they are also beset by a number of problems. Moreover, these scholars, especially those working on epistemic communities, embrace a largely agent-centered view, where state decision makers calculate and reason in response to a changing material environment.[13]

[11] See, among others, Stephen Walt, *The Origins of Alliances* (Ithaca, N.Y.: Cornell University Press, 1987); Jack Snyder, *Myths of Empire: Domestic Politics and International Ambition* (Ithaca, N.Y.: Cornell University Press, 1991); and William Wohlforth, "Realism and the End of the Cold War," *International Security* 19 (Winter 1994–95).

[12] Mark Zacher, *Governing Global Networks: International Regimes for Transportation and Communications* (New York: Cambridge University Press, 1996), for example. An excellent, synthetic review of the regime literature is Rittberger, Hasenclever, and Mayer (fn. 4).

[13] See Peter Haas, *Saving the Mediterranean: The Politics of International Environmental Cooperation* (New York: Columbia University Press, 1990); and Kathryn Sikkink, "Human Rights, Principled Issue-Networks and Sovereignty in Latin America," *International Organization* 47 (Summer 1993). For critiques, see Checkel, *Ideas and International Political Change: Soviet/Russian Behavior and the End of the Cold War* (New Haven: Yale University Press, 1997), chaps. 1, 7; and Helen Milner, "International Theories of Cooperation: Strengths and Weaknesses," *World Politics* 44 (April 1992).

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Constructing National Interests

With this background, the task is to assess the contribution of the constructivists, beginning with the book by Finnemore. She questions two assumptions upon which most work on international institutions and IR more generally rests: the definition of state interests and rational means-ends calculations as the dominant mode of human interaction (p. x). In ontological terms, she seeks to move scholarship away from agent-oriented approaches (neoliberalism, for example) by paying more attention to the structure side of the agent-structure debate (p. 7).

In an excellent opening chapter, Finnemore argues that a constructivist logic of appropriateness is just as plausible a predictor of human and state behavior as the rationalists' logic of consequences. When one makes actor and state interests the dependent variable, as she does, such logics of appropriateness can be key in determining their content. From where do such logics come? Systemic norms propagated by international organizations are one possible answer; they provide states with direction and goals for action.

The core of the book is three case studies of how international institutions (and, in one case, an international nongovernmental organization) were able to reconstitute state interests. These not only make for fascinating reading, but they also offer fresh insights into how institutions matter in world politics. They are also carefully argued, typically using two streams of evidence: (1) correlations between the emergence of new systemic norms and changes in state interests and practice; and (2) analysis of discourse to see if actions are justified in ways consistent with the values and rules embedded in the norms. These data, along with attention to alternative explanations, allow Finnemore to build a plausible case.

Her study of the United Nations Educational, Scientific and Cultural Organization (UNESCO) is representative. Finnemore's puzzle is to explain why so many countries—developing and developed—created similarly stuctured science policy bureaucracies in a relatively brief period. She begins with a rigorous consideration of alternative explanations for their creation, for example, that they were established at the behest of powerful domestic constituencies. After testing these quantitatively and finding them lacking, Finnemore advances her own norms-based argument.

She starts at the international level, documenting how a norm prescribing the creation of national science units initially took hold at UNESCO and was later consolidated there. On the latter, part of the evidence is a careful study of the changing discourse within UNESCO

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and among its member states. In particular, she notes how, over time, the notion that such units were needed took on a prescriptive status and came to be taken for granted.[14]

Finnemore then turns to the state level, establishing correlations between the norms promoted by UNESCO and the creation of science bureaucracies by a number of states. To move beyond correlations, however, she considers several cases (Lebanon, East Africa) in more detail, analyzing the personal and organizational pathways through which the UNESCO norms diffused to these states. While the evidence here is a bit weaker (Finnemore conducted no fieldwork in the respective countries), it is nonetheless sufficient to allow her to make a plausible case that the norms were causally important for the change in science policy. Put differently, norms embodying certain logics of appropriateness had provided states with a new understanding of their interests (chap. 2).

Analysis of this sort moves one beyond the understanding of institutions provided by neoliberal institutionalists in at least two ways. First, by endogenizing interest formation, Finnemore sheds much-needed light on a crucial issue ignored by neoliberals: how states come to define their interests in certain ways. International organizations can teach states to value certain goals: national science bureaucracies in the case of UNESCO and poverty alleviation as a policy objective in the case of the World Bank. Finnemore carefully argues that these new interests arose in the absence of domestic constituencies or powerful countries favoring them. Instead, they were diffused to states by systemic norms, from the outside, as it were. Materialist and rationalist explanations cannot account for such value and behavioral change.

Second, the book demonstrates that international organizations are not empty vessels that simply reduce transaction costs, as portrayed by neoliberals. They are purposive entities that are able, in some cases, to trump states and their power. Indeed, Finnemore's rich source material at the international level gives her cases a sense of dynamism and history in the making that is typically absent from neoliberal accounts of institutions. She has thus provided a theoretically informed and empirically substantiated argument for how institutions not only constrain but also constitute states and their interests, solving what is a puzzle for other theorists.[15]

[14] The documentation and data come chiefly from archives at UNESCO's Paris headquarters.

[15] For a similar argument, see David Strang and Patricia Mei Yin Chang, "The International Labor Organization and the Welfare State: Institutional Effects on National Welfare Spending, 1960–80," *International Organization* 47 (Spring 1993).

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The book also fills a gap in constructivism: failure to tell us why certain norms arise at particular times. Finnemore provides an answer by exploring the role of moral entrepreneurs: committed individuals who happen to be in the right place at the right time to instill their beliefs in larger global social structures (pp. 24–28, chap. 4, pp. 137–39).[16]

Finnemore's account is not without weaknesses, however. Most important, it is not clear what one does with her argument, with so much resting on contingencies and idiosyncratic variables. While Finnemore has demonstrated that social construction is causally important, she has failed to specify systematically when, how, and why this occurs. To be fair, one book cannot do everything. All the same, the critical next step should be the development of a specifically constructivist theory of international institutions, one that would elaborate such scope conditions.

A second weakness is the degree to which Finnemore's analysis is consistent with constructivism's mutual constitution of agents and structures. Now, exactly how one operationalizes mutual constitution is a dilemma for all empirical constructivists. Finnemore's solution is a bracketing strategy, where she first brackets agency and then, structures; her case studies are broadly faithful to this approach (pp. 24–25, chaps. 2–4).

The problem is the wrong choice of agents: the entrepreneurs who are responsible for the creation of norms in the first place. To analyze the process of mutual constitution that led to a change of national interests within particular states (her dependent variable), the agents she should be exploring, especially given her emphasis on global norms as the structures, are groups and individuals in those same states. If Finnemore had focused on these agents, it would have led her to explore several important issues, for example, the feedback effects of state (agent) behavior on the norms themselves.

A final difficulty is unavoidable given Finnemore's emphasis on systemic social structures: the neglect of domestic politics. A question that immediately comes to mind when reading her analysis is why norms diffuse differentially, that is, why they have so much greater impact in some countries than in others. Through what mechanisms do global norms work their effects domestically? Finnemore alludes to these issues at several points but provides no clear answers (pp. 125, 137). This is odd, since it is the constructivists, with their attention to practice and interaction, who should be keying upon process and mechanisms.[17]

[16] On moral entrepreneurs and the development of norms, see also Ann Florini, "The Evolution of International Norms," *International Studies Quarterly* 40 (September 1996).

[17] Indeed, Wendt himself stresses the importance of mechanisms and process in causal constructivist theorizing. Wendt (fn. 7), chap. 2, 91–96.

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CULTURE AND SECURITY

In a curious way, the Katzenstein volume is both very ambitious and very cautious. The former is seen in its willingness to question, from a sociological perspective, the very microeconomic disciplinary foundations of IR, and to do so on empirical issues that realists will recognize as their own. At the same time, Katzenstein and his contributors do not advance an alternative theory of national security; in contrast to many of the better edited volumes, this one does not even provide a common theoretical framework used by all contributors.[18]

It does offer extraordinarily fresh thinking about security, however, along with richly detailed case studies. Among the familiar security questions explored in a new way are the proliferation of conventional weaponry, the role of deterrence in the nonuse of nuclear and chemical weapons, the sources of military doctrine, the Soviet cold war endgame, and alliance dynamics in both the North Atlantic and the Middle East.

Chapter 1 (Katzenstein) and especially chapter 2 (Jepperson, Wendt, and Katzenstein) should be required reading in any graduate seminar on security or IR more generally. This is not because Katzenstein et al. have decisively trumped mainstream theorists or because they have everything right. Rather, the essays are extremely helpful in explaining how the theoretical schools (neorealism, neoliberalism, constructivism) differ and why it matters (chap. 1) and for making sense of a sociological approach to national security (chap. 2). Moreover, these scholars are interested in dialogue; the goal is not to demonize existing approaches but to note their limitations.[19]

The volume's sociological approach to national security involves relaxing the two core assumptions of neorealism and neoliberalism, which are (1) that the environment of states can be conceived solely in terms of physical capabilities and (2) that institutions and structures only constrain the behavior of states with fixed interests. Relaxing the first assumption opens the possibility of social structures being causally important in world politics, while relaxing the second suggests that the effects of these structures may reach beyond behavioral constraint to identity and interest formation. In other words, just like Finnemore, this is a challenge to the materialism and methodological individualism that dominate the discourse in mainstream IR (Katzenstein, 16–17).

[18] In addition to the edited volume, Katzenstein has published a monograph that makes many similar sociological claims. See Peter Katzenstein, *Cultural Norms and National Security: Police and Military in Postwar Japan* (Ithaca, N.Y.: Cornell University Press, 1996).

[19] See also ibid., chap. 2.

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Given this stance, the volume needs to address two key questions: (1) the content and properties of the social structures having such profound effects on agents; and (2) the causal mechanisms through which these structures have their affects. The social structures doing the explanatory work are norms and, to a lesser extent, culture. The former are defined as collective expectations about proper behavior for a given identity (Jepperson, Wendt, and Katzenstein, 54). That this is the same definition as used by Finnemore and Klotz is one indicator, among others, that a constructivist research program is beginning to consolidate itself in IR.[20]

The presence of these normative structures is established through a variety of well-established and standard methodological techniques, for example, interview data, qualitative content analysis of primary sources, statistical studies. The research strategy is broadly similar to Finnemore's: document the presence of the social structures; note a correlation between these and new state interests; examine changing discourse as further evidence of these normative effects; and, finally, strengthen the case by considering alternative explanations, usually drawn from neorealist and neoliberal theories.

Risse-Kappen's chapter on the North Atlantic Treaty Organization is a good example of the general approach. His puzzle is to explain NATO's initial formation and endurance—events that are anomalous, he argues, from the standpoint of both traditional and more sophisticated realist theories of alliances. In the first part of his essay Risse-Kappen discusses these likely alternative explanations and carefully documents their shortcomings.

Next, he develops his own liberal constructivist approach, where the norms that govern the domestic decision-making process within liberal systems come to regulate the interactions among democracies in international institutions such as NATO. Democracies, Risse-Kappen argues, "externalize their internal norms when cooperating with each other. Power asymmetries will be mediated by norms of democratic decision-making among equals emphasizing persuasion, compromise and the non-use of force or coercive power." He then deduces four different ways such norms will influence the interaction process among democratic allies (pp. 268–71).[21]

[20] Definitional congruence in key concepts of a research program is often seen as a sign of its growing maturity. See Milner (fn. 13).

[21] Students of the democratic peace literature will recognize this as a constructivist extension of their domestic norms argument. See Zeev Maoz and Bruce Russett, "Normative and Structural Causes of the Democratic Peace," *American Political Science Review* 87 (September 1993).

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Risse-Kappen illustrates the argument by showing how the interests in play, both in the formation of NATO and during several key crises (Suez 1956, Cuba 1962), were shaped by the democratic normative context in which they evolved. In other words, the interests of states and alliance decision makers (the agents) were being constituted by these democratic norms (the structures). His evidence is carefully culled from secondary and, especially, primary sources, for example, the U.S. government's *Foreign Relations of the United States* series and materials in the National Security Archive. This allows him to dissect the decision-making process, showing how norms affected the preferences and interests of various alliance partners.[22]

The essay by Risse-Kappen is not at all atypical for the Katzenstein volume, which contains a number of carefully argued studies documenting the impact of norms. Unfortunately, the volume is much weaker at theorizing the causal mechanisms that give these social structures such powerful constitutive effects. This is a fair criticism to make, as the authors clearly commit themselves to a largely causal epistemology (Katzenstein, 4–5, 7; Jepperson, Wendt, and Katzenstein, 52–53, 65–68). However, as Katzenstein himself admits in the book's concluding essay, structural theories such as sociological institutionalism, which is accorded a central role in the volume, neglect important processes that translate structural effects (pp. 512–13).[23]

One result is that the role of agency, while highlighted empirically in many of the chapters, is neglected theoretically. The volume short-circuits one loop in the constructivist method: the causal arrows flow primarily from structures to agents. Mutual constitution, however, implies they also flow from agents to structures. Some constructivists might object that such sequential (structures to agents then agents to structures) causal language misconstrues the essence of their ontology: the simultaneous, mutual constitution of agents and structures. However, the empirical application of mutual constitution by these scholars follows precisely the sequential logic outlined here.[24]

Despite such shortcomings, this is a very important volume. Its commitment to causal analysis and standard methodologies contributes to a productive dialogue with neorealists and neoliberals; for the most part, these scholars are all talking the same language. In addition, the case

[22] Risse-Kappen has elaborated these arguments in a separate monograph; Risse-Kappen, *Cooperation among Democracies: The European Influence on U.S. Foreign Policy* (Princeton: Princeton University Press, 1995).

[23] In his own book, Katzenstein pays much greater attention to mapping such processes, although a lack of explicit theorizing about them is still evident. Katzenstein (fn. 18), chaps. 3–6.

[24] See Finnemore's bracketing strategy (p. 25); Wendt (fn. 4), 364–65; and fn. 9 above.

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studies (chaps. 3–11) offer new and meaningful insights. For some authors, this means demonstrating that particular security outcomes can be explained only when realist analyses are supplemented with constructivist approaches (Herman's chapter on Soviet foreign policy under Gorbachev; Risse-Kappen's essay on NATO).

Other contributors, however, go a step further and argue that their constructivist approach supplants rationalist and materialist accounts. For example, in a superbly argued essay, Alastair Johnston shows that the persistence of China's realpolitik over several centuries can be understood only in terms of a constructivist explanation that subsumes structural realism (Katzenstein, chap. 7).

Finally, in an innovation rare in any edited volume, Katzenstein has included an essay (chap. 12 by Kowert and Legro) that reflects critically on the book as a whole. This excellent chapter provides the sense of cumulation and summary that is missing when one reads across the various contributions. It achieves this not by championing the constructivist cause but by critically evaluating the volume's shortcomings. For developing a more coherent constructivist research program, this is precisely what is needed. Katzenstein et al. are to be applauded for including such a chapter.

Global Norms and the Demise of Apartheid

The puzzle Audie Klotz seeks to explain is why a large number of international organizations and states adopted sanctions against the Apartheid regime in South Africa despite strategic and economic interests that had fostered strong ties with it in the past. Klotz argues that the emergence of a global norm of racial equality is at the heart of the explanation: it led states to redefine interests even though they had material incentives not to do so. This demonstrates a constitutive role for norms, she argues, where they affect state identity and do not simply regulate behavior (chaps. 1–2).

The case studies on the United States, Britain, and Zimbabwe (chaps. 6–8) make for especially fascinating reading. Klotz's extensive empirical research and attention to domestic politics allow her to explore how this global norm first reached the national level and the effects it then had on the interests of various groups and individuals. In contrast to Finnemore and many contributors to the Katzenstein volume, Klotz offers much more process-level evidence on how norms actually reconstituted state interests.

The book thus fills in important gaps in both regime theory and constructivism. Concerning the former, Klotz demonstrates in a nicely

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argued section that neoliberal regime analysis shortchanges the role norms play in international politics. This is not to argue that the neoliberals have it all wrong (Klotz does not say this); rather, their view of norms as constraints on states, as opposed to constituting them, is only half the story. Empirically, she shows how this theoretical move can actually be carried out (pp. 13–33). In an important sense, Klotz is empiricizing the abstract critiques of regime theory advanced by Friedrich Kratochwil and John Ruggie over the past decade.[25]

The author is also to be commended for flagging an issue that constructivist research must address. As Klotz puts it: "The crucial question is then how a contested norm . . . becomes institutionalized, both globally and domestically" (pp. 24–25). Indeed, after reading enough of this work, one senses that there are all too many norms floating around "out there" that somehow insinuate themselves "in here," that is, in the domestic arena. (While Finnemore furthers our understanding of how norm institutionalization works in international institutions, she neglects the question of domestic diffusion mechanisms and processes.)

Klotz addresses this issue by elaborating three transmission mechanisms that link norms and policy choice: community and identity; reputation and communication; and discourse and institutions. While these are ultimately underspecified (one would want to know what mechanisms under what conditions are likely to be at work in a particular national setting), this is nonetheless a foundation upon which other scholars should build. By elaborating causal mechanisms that specify diffusion pathways, constructivists will move away from the correlational analyses too often evident in their work; process tracing of this sort is a method whose time has come for constructivism.

Three weaknesses limit the impact of Klotz's book, however. First, the ontology is not one of mutual constitution, not even in its bracketing form—comments to the contrary notwithstanding (Klotz, 168–69, 172). Instead, like both Finnemore and many of the Katzenstein case studies, this is a study of how social structures, a global norm of racial equality, reconstituted agents.

Second, the analysis is too often correlational (pp. 158–61, for example). In part, this results from a failure to specify more systematically the causal mechanisms operating at the domestic level (Klotz, 24–33). However, it is also an artifact of the source material, which is primarily secondary. Given the arguments that Klotz wishes to make about the

[25] Friedrich Kratochwil and John Ruggie, "International Organization: A State of the Art on an Art of the State," *International Organization* 40 (Autumn 1986); and Friedrich Kratochwil, *Rules, Norms and Decisions: On the Conditions of Practical and Legal Reasoning in International Relations and Domestic Affairs* (Cambridge: Cambridge University Press, 1989).

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effects of global norms on various groups within states, archival, memoir, or interview data would seem essential.

For the congressional representatives in her U.S. study, to take one case, it matters tremendously for the argument whether their views, in the presence of the global norm, were changing because they feared adverse electoral consequences (the rationalists' means-ends calculations) or because they learned new values and beliefs (the constructivists' logic of appropriateness) (Klotz, chap. 6). Klotz's correlations tell us that the views were changing but not why this occurred; the necessary process tracing is never fully carried out in the substantive chapters.

Third, the theory-building potential inherent in the book's ambitious cross-national design goes unrealized. Klotz presents no theory that might predict her results or explain similar dynamics in other countries, if one wished to extend the study. This is unfortunate: in the end, one is still left wondering why regimes and norms have such powerful constitutive effects in some states but not in others.[26]

Summary

Two conclusions follow from the above. Most important, constructivists have convincingly shown the empirical value of their approach, providing new and meaningful interpretations on a range of issues of central concern to students of world politics. At the same time, constructivist theorizing is in a state of disarray. These researchers, much like the rational choice scholars they criticize, have made too rapid a leap from ontology and methods to empirics, to the neglect of theory development. This matters tremendously. As a central architect of constructivism has recently put it: "If parsimony is over-rated as a theoretical virtue . . . cumulation is surely underappreciated." And cumulation, it might be added, if it is to be efficient and productive, requires theory.[27]

Agency, Theory Building, and the Constructivist Enterprise

My purpose in this last section is twofold. I begin by highlighting three issues that should be easy for constructivists to fix. Two, more difficult

[26] By "theory" I mean middle-range theory and its development, which should be the goal of problem-driven empirical research. See, for example, Thomas Risse-Kappen, ed., *Bringing Transnational Relations Back In: Non-State Actors, Domestic Structures and International Institutions* (Cambridge: Cambridge University Press, 1995).

[27] For the quote, see Wendt (fn. 7), chap. 1, 15. A central message of one recent and influential critique of rational choice is precisely its neglect of theory development, particularly of the middle-range sort. See Green and Shapiro (fn. 6), 188; and idem, "Pathologies Revisited; Reflections on Our Critics," in Friedman (fn. 6).

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questions are then explored: the role of agency and the need for theory. Without more sustained attention to agency, these scholars will find themselves unable to explain where their powerful social structures (norms) come from in the first place and, equally important, why and how they change over time. Without theory, especially at the domestic level, constructivists will not be able to explain in a systematic way how social construction actually occurs or why it varies cross nationally.

The Three Easy Fixes

Constructivists need, first, to pay greater attention to research design. As noted, much of the empirical work examines single countries or issues. Cross-national or longitudinal designs would help reduce the problem of overdetermination that is evident in many constructivist analyses, where social structures, usually norms, are invoked as one of several causal variables with little or no insight given on how much of the outcome they explain (Katzenstein, chaps. 4, 8, 10; and Klotz, 114, 162, passim). It would also be useful to consider cases when the "dog doesn't bark," that is, where state identity/interests, in the presence of a norm, do not change.[28]

Second, these scholars should give equal attention to the bad things in world politics that are socially constructed. There is a tendency in the recent work to consider only ethically good norms, such as those imposing a stigma on the use of nuclear or chemical weapons, those that helped bring the cold war to an end, or the global norms that facilitated the demise of Apartheid. Some constructivists are aware of this problem (Finnemore, 6, 31–32; Kowert and Legro, in Katzenstein 485–86), but future work must address it. It will not only protect these scholars from getting caricatured as peaceniks by theoretical opponents, but it will also direct their attention to important unexplored issues such as the role of social construction in ethnic conflict and war.[29]

[28] On the last point, Klotz's cross-national focus is an important step in this direction. For additional constructivist research utilizing single-country/issue designs, see Ray Koslowski and Friedrich Kratochwil, "Understanding Change in International Politics: The Soviet Empire's Demise and the International System," *International Organization* 48 (Spring 1994); Richard Price, "A Genealogy of the Chemical Weapons Taboo," *International Organization* 49 (Winter 1995); Thomas Biersteker and Cynthia Weber, eds., *State Sovereignty as Social Construct* (New York: Cambridge University Press, 1996); Bukovansky (fn. 9); Nina Tannenwald, "The Nuclear Taboo: The Normative Basis of Deterrence" (Manuscript, Watson Institute for International Studies, Brown University, April 1996); and Jutta Weldes, "Constructing National Interests," *European Journal of International Relations* 2 (September 1996).

[29] On the last point, see Lars-Erik Cederman, "From Primordialism to Constructivism: The Quest for Flexible Models of Ethnic Conflict" (Paper presented at the annual meeting of the American Political Science Association, San Francisco, September 1996). A particularly egregious example of the caricaturing is Mearsheimer (fn. 7).

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Third, constructivists must take greater care in defining key terms, for example, institutionalization. This word is invoked in nearly every analysis of norms (Finnemore, 126; Katzenstein, 56, 96–97, 129, 143, 161, 472, 484; Klotz, 24–26), but the reader is given no explanation of what the process entails. In what institutions—or individuals—do norms reside? Must norms be internalized first by individuals through a socialization and learning process? If so, constructivists should pay greater attention to developing the often implicit cognitive models in their analyses. Or, does institutionalization occur at a higher level of aggregation, through bureaucratic and legal processes that affect society as a whole. If this is the level under examination, constructivists could benefit from the insights of historical institutionalists and of those in the ideas literature who have studied such dynamics.[30]

The Challenges Ahead

Ontology and theory building are the central challenges for constructivists.

BRINGING AGENCY BACK IN

This move is necessary if mutual constitution is to be taken seriously as a way of thinking about the social world. I appreciate the reasoning of some that a neglect of agency is legitimate, at present, as a corrective to the extreme agent orientation of most mainstream IR (Finnemore, chap. 1). Moreover, it has proved very difficult to apply mutual constitution in empirical research.

All the same, constructivists should want to avoid the charge that they are reducing one unit of analysis—agents (states, decision makers)—to the other—structures (norms). One result of this reduction is a failure to explore how norms arise in the first place (and the role of agency and power in this process), and how, through interactions with particular agents, norms change over time.[31]

An example clarifies the importance of the last point. Post–cold war Europe has witnessed the emergence of norms advancing more inclusive conceptions of national membership (citizenship laws, rights of na-

[30] See Frank Longstreth et al., *Structuring Politics: Historical Institutionalism in Comparative Analysis* (New York: Cambridge University Press, 1992); and Judith Goldstein, *Ideas, Interests and American Trade Policy* (Ithaca, N.Y.: Cornell University Press, 1993). Not surprisingly, it is Katzenstein, the comparativist, who has offered the most careful constructivist account of domestic norm institutionalization. See Katzenstein (fn. 18), chaps. 1–3, 5, 7.

[31] Dessler's transformative model of international structure should be especially relevant to constructivists as they rethink the role of agency in their analyses. See David Dessler, "What's at Stake in the Agent-Structure Debate?" *International Organization* 43 (Summer 1989).

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tional minorities). Promoted initially by nongovernmental actors and more recently by the Strasbourg-based Council of Europe, the content of these norms has now been modified significantly as a result of Russia's instrumental exploitation of them in a bid to reassert its dominance among the former Soviet states. The constructivists' normative structures are themselves being reshaped by the activities of purposeful agents.[32]

Three reasons explain why agency has fallen through the ontological cracks for constructivists. First, many constructivists rely upon the insights of sociological institutionalism for their thinking about the social world. Those insights, however, are based upon a particular branch of organization theory that systematically excludes questions of agency, interest, and power.[33]

Second, because of their focus on collectively held, intersubjective understandings (norms), most constructivists, not surprisingly, are less interested in questions of individual agency. Yet the evolutionary development of norms suggests that, at some early point in their life histories, they may not be collective in any meaningful sense; particular individuals (Finnemore's moral entrepreneurs, for example) may play key roles at early stages. Thus, social construction at the level of agents is—or rather, should be—a relevant concern for these scholars.[34]

Finally, Wendt, who has been so influential in developing constructivism, has explicitly bracketed individual agency as a factor to be explained by mutual constitution. For Wendt, a key distinction is between the corporate and social identity of states, with the former deemphasized because "its roots [are] in domestic politics." Since he assumes a unitary state, corporate identity includes and subsumes that of the individual. The result is that social construction at the level of individual agents or, more generally, at any domestic level is neglected. While several theorists have criticized Wendt for this stance, no clear understanding of how to rectify it has emerged.[35]

[32] Checkel, "Norms, Institutions and National Identity in Contemporary Europe" (Manuscript, October 1997).

[33] See Paul DiMaggio, "Interest and Agency in Institutional Theory," in Lynne Zucker, ed., *Institutional Patterns and Organizations: Culture and Environment* (Cambridge: Ballinger Publishing, 1988); Paul DiMaggio and Walter Powell, eds., *The New Institutionalism in Organizational Analysis* (Chicago: University of Chicago Press, 1991), chaps. 1, 4; Frank Dobbin, "Cultural Models of Organization: The Social Construction of Rational Organizing Principles," in Diana Crane, ed., *The Sociology of Culture: Emerging Theoretical Perspectives* (Cambridge: Blackwell Publishers, 1994).

[34] See also the discussion of norm reproduction in Florini (fn. 16), 374–75, 377–80.

[35] Alexander Wendt, "Collective Identity Formation and the International State," *American Political Science Review* 88 (June 1994); and, for the quote, idem, "Identity and Structural Change in International Politics," in Friedrich Kratochwil and Yosef Lapid, eds., *The Return of Culture and Identity in*

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It is ironic that constructivists therefore find themselves in a predicament all too familiar to rational choice scholars: their ontology has led them to neglect key issues. The agent-centered approach of rational choice provides a clear perspective on the microfoundations of human behavior, but much less clarity on how this connects with the broader institutional and social context. The dilemma then is how to get from microfoundations to outcomes.[36]

Constructivists, despite their arguments about mutually constituting agents and structures, have advanced a structure-centered approach in their empirical work. Moreover, Wendt's theoretical stance has led to a neglect of domestic agency. The result is that constructivism, while good at the macrofoundations of behavior and identity (norms, social context), is very weak on the microlevel. It fails to explore systematically how norms connect with agents.[37]

SOCIAL CONSTRUCTION AND THEORY BUILDING

To explore such connections, constructivists will need to engage in theory development. At present, constructivism is, like rational choice, nothing more than a method. It leads one to ask certain questions and make certain assumptions. However, constructivists should surely want more. In fact, in the volumes under review, there is a persistent call precisely for greater specification of constructivism (Finnemore, 130–31; Kowert and Legro, in Katzenstein, 469–83; Klotz, 26–33).[38]

The missing element is substantive, middle-range theory, which would provide constructivists with a set (or better, competing sets) of research questions and hypotheses that could be tested in various cross-national and longitudinal studies. The need for theory is especially evident at the domestic level, where the constructivist "norm" is empirical ad hocism with all sorts of implicit models of domestic politics and key actors being invoked.[39]

IR Theory (London: Lynne Rienner, 1996), 50–51. For critiques, see Sujuta Pasic, "Culturing International Relations Theory: A Call for Extension," in Kratochwil and Lapid, 87–90; and Cederman (fn. 29), 13–19.

[36] Rational choice institutionalism represents an effort to address this dilemma. See Norman Schofield, "Rational Choice and Political Economy," in Friedman (fn. 6), 192–93, 207–8; and Peter Hall and Rosemary Taylor, "Political Science and the Three New Institutionalisms," *Political Studies* 44 (December 1996), 958–62.

[37] On the micro versus the macrofoundations of behavior and identity and the tensions between the two, see "Symposium: The Role of Theory in Comparative Politics," *World Politics* 48 (October 1995), 13–15.

[38] After earlier confusion, Wendt also now argues that constructivism is not a theory. Wendt (fn. 7), chap. 1.

[39] All the books reviewed are strongest, theoretically, at the systems level, in large part because they draw upon an already well developed sociological literature that is systemic in orientation. See Martha Finnemore, "Norms, Culture and World Politics: Insights from Sociology's Institutionalism," *International Organization* 50 (Spring 1996).

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If constructivists are to theorize at the domestic level, they will need to address three issues. How deep within a policy does one need to go with a constructivist analysis? How is such an analysis actually carried out? Under what conditions is a constructivist approach, as opposed to a rationalist one, even necessary to explain the effects of social structures?

Progress on the first issue requires specification of political actors, that is, some model of domestic politics within the state. There are all sorts of domestic frameworks available (pluralist, institutional, and so on), but these are well known and need not be discussed. Rather, I wish to suggest that constructivists have already uncovered abundant evidence that the state-level penetration of international social structures varies cross nationally. The how deep question clearly matters.[40]

A few examples will clarify the point. Although Finnemore is not explicit on this score, one can infer from her empirical chapters that normative effects are limited to state bureaucrats (Finnemore, chaps. 2, 4). In the Katzenstein volume, some authors find norms held broadly within a polity (Berger on postwar Germany and Japan), while others see their effects confined to political and academic elites (Herman on the USSR) or to state decision makers (Risse-Kappen on NATO; Katzenstein, chaps. 9, 8, 10). Klotz's cross-national design uncovers evidence of normative effects at the level of political elites in one instance (the U.S.); in her British case, however, such influences are partly blocked by deeper, historically constructed national discourses (Klotz, chaps. 6, 7).

To make sense of and explain such diversity, constructivists will need to theorize the varying processes through which social construction occurs. The insights gained from Klotz's partial move in this direction indicate its importance. Here, constructivism would benefit greatly from utilizing methods developed by IR scholars seeking to place greater emphasis on process.[41]

Having established that social construction occurs at various levels within the state, the second question can be addressed: how does one conduct such an analysis? For present purposes, assume three domestic levels: society, state institutions, and individual decision makers. Furthermore, due to space limitations, consider only the individual level. What does it mean to explore the social construction of individual decision makers? Theoretically, it is to explore how social structures inter-

[40] Milner's (fn. 13) advice to mainstream IR theorists on how to conceptualize domestic politics is relevant here as well.

[41] Peter Evans, ed., *Double-Edged Diplomacy: International Bargaining and Domestic Politics* (Berkeley: University of California Press, 1993); Haas (fn. 13); Sikkink (fn. 13); and Risse-Kappen (fn. 26), among others.

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act with and fundamentally affect the identities of these agents, how certain logics of appropriateness come to govern their behavior.

For constructivists, this means being able to explain how the interests and identities of particular agents, in the presence of norms, change—or, equally important, do not change over time. Despite its centrality, this issue, which directly addresses the cognitive microfoundations of constructivism, has not received the attention it should, especially in the empirical literature. However, a review of this work suggests three possibilities.

One is a learning argument drawn from cognitive psychology. Just such a dynamic is implicit in Finnemore's book, where agents (state elites), through exposure to norms, are taught new identities and interests. Because interests are changing, one can infer that this is a constructivist claim about complex, rather than simple, learning. (In the latter, new information allows actors to pursue given interests more effectively; it can be accommodated within a rationalist framework.)[42]

The problem for such arguments is that when one introduces the reality and friction of domestic politics, complex learning typically breaks down. Absent such processes, one is back in the rationalists' world of simple learning. This politics-learning tension is well established both theoretically and empirically, with the basic insight being that learning becomes less likely as the circle of actors grows.[43]

Symbolic interactionist theory in sociology provides a second possible way to probe these constructivist microfoundations. Here, individual identities and interests are formed through a process of interaction, with two mechanisms being key: imitation and social learning. Since imitation does not involve interaction (and, thus, mutual constitution), it is the social learning dynamic that plays a more central role in the constructivist accounts. Social learning, much like the cognitive/individual sort just discussed, can be simple or complex, but given the constructivist emphasis on identity change, the focus is again on the latter. Specifically, complex social learning occurs when identities and interests are learned in response to how actors are treated by significant others.[44]

[42] Personal communication, Martha Finnemore, September 1996. See also Thomas Risse-Kappen, "Democratic Peace—Warlike Democracies? A Social Constructivist Interpretation of the Liberal Argument," *European Journal of International Relations* 1 (December 1995). On the learning literature more generally, see Jack Levy, "Learning and Foreign Policy: Sweeping a Conceptual Minefield (Review Article)," *International Organization* 48 (Spring 1994).

[43] On the learning theory—politics connection, see Richard Anderson, "Why Competitive Politics Inhibits Learning in Soviet Foreign Policy," in George Breslauer and Philip Tetlock, eds., *Learning in U.S. and Soviet Foreign Policy* (Boulder, Colo.: Westview Press, 1991).

[44] See Wendt (fn. 7), chap. 7; and idem, "Anarchy Is What States Make of It: The Social Construction of Power Politics," *International Organization* 46 (Spring 1992). Symbolic interactionist theory

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While intriguing, this line of reasoning has not yet been integrated with empirical research. When and if this occurs, the same problem as discussed above will confront constructivists: how to maintain complex learning in settings where the static created by domestic politics hinders it.

Social psychology provides a final possible tool for exploring social construction at the individual level. Here, the theoretical foundations are provided by Turner's self-categorization theory, where the focus is on individual-group interactions. For constructivists, the key process in Turner's work is depersonalization, for this is how individual identities and interests change through interaction with a larger social group.[45]

Unfortunately, this process is so context dependent and unclear (does depersonalization occur through social learning? through coercion?), it is not at all certain how constructivists might integrate its insights into their work. Nor surprisingly, when these scholars have used variants of self-categorization theory, it has led to unresolved theoretical disputes, as well as to sloppy empirical work.[46]

The criticisms and questions raised above should not be viewed as dismissive. In addressing an issue of central importance—how to connect social structures to agents—these scholars are building much-needed bridges to other literatures. In fairness to constructivists, scholars of rational choice have been harshly criticized in similar ways for their attempts at the reverse process: connecting their sparse microfoundations to broader social and normative structures.[47]

These last comments lead directly to the third question constructivism needs to address more systematically at the domestic level: when is such an approach, as opposed to a rationalist one, even necessary to explain the effects of social structures? Because most of the constructivist work to date has been method driven, these scholars have failed to appreciate that the domestic effects of norms are at times best captured and explained by rational choice.[48]

Klotz's U.S. study, for example, suggests that global norms were not so much transforming the identities of congressional representatives as

has been developed primarily at the individual level, which is why I discuss it here. Wendt, unconvincingly in my view, argues that it can be applied at the level of (unitary) states as well.

[45] See John Turner, *Rediscovering the Social Group: A Self-Categorization Theory* (Oxford: Basil Blackwell, 1987), chap. 3; and Penelope Oakes et al., eds., *Stereotyping and Social Reality* (Oxford: Blackwell, 1994), chaps. 1, 4.

[46] On the former, compare Jonathan Mercer, "Anarchy and Identity," *International Organization* 49 (Spring 1995); and Wendt (fn. 7), chap 7. For the sloppy empirical work, see Glenn Chafetz, "The Political Psychology of the Nuclear Nonproliferation Regime," *Journal of Politics* 57 (August 1995).

[47] For example, Robert Lane, "What Rational Choice Explains," in Friedman (fn. 6).

[48] For details, see Checkel, "International Norms and Domestic Politics: Bridging the Rationalist-Constructivist Divide," *European Journal of International Relations* 3 (December 1997).

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creating constraints on their behavior (Klotz, chap. 6). In other words, one is back in the rationalist's world of means-ends calculations (in this instance, a political survival calculus of how best to secure reelection). Now, Klotz, as well as many contributors to the Katzenstein volume, does recognize that norms can have instrumental effects such as these. Nonetheless, one would want clear indicators of when one dynamic or the other is likely to prevail. The challenge, then, is to develop scope conditions.[49]

One is temporal. This is the division-of-labor argument briefly mentioned in the Katzenstein volume (Jepperson, Wendt, and Katzenstein, 70; Kowert and Legro, 490–91). Constructivism might be best at explaining identity and interest formation, but as some later time, when interests were stable, rationalism might be the right method. Such a solution would have the benefit of making everyone happy: there would be a legitimate place and time for all approaches. However, the devil is in the details. Empirically, how does one know a priori when a state is likely to be in a period of identity formation, where constructivism is appropriate, as opposed to a time when identities and interests are already fixed?

A second scope condition is a density-of-interactions argument, which has been applied primarily to international bargaining. At some stage in this process, actors may switch from the rationalists' consequential, means-ends logic to a situation in which their preferences are in genuine flux and open to change through persuasion and communication. However, the key question is how one predicts such a switch. What needs to happen and when? Cognitive uncertainty by individual negotiators? The establishment, through communication and speech, of some level of collective trust among them? Lacking this specification, the same problems arise as with the division-of-labor argument.[50]

A final scope condition explores the role of domestic institutions. "Institution," in this case, refers to the bureaucracies, organizations, and groups that channel and define policy-making within states. In the three books under review, one sees two very different normative effects at the domestic level. In some instances, decision makers and elites are

[49] For other constructivist accounts portraying similar rationalist logics, see Price and Tannenwald, in Katzenstein, 138, 148–50; and Bukovansky (fn. 9), 21–51. Very similar questions of scope and domain are now being asked by several rational choice analysts. See the discussion of "segmented universalism," in Green and Shapiro (fn. 6), 192–93, 204; Michael Taylor, "When Rationality Fails," in Friedman (fn. 6), 230–33; and Powell (fn. 1), 324.

[50] Thomas Risse, "The Cold War's Endgame and German Unification" (A Review Essay), *International Security* 21 (Spring 1997). This constructivist conception of communication thus extends well beyond the rationalists' "cheap talk." For an excellent discussion, see James Johnson, "Is Talk Really Cheap: Prompting Conversation between Critical Theory and Rational Choice," *American Political Science Review* 87 (March 1993).

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essentially taught (Finnemore) or learn (Herman, in Katzenstein, chap. 8) new beliefs and values in the absence of any obvious domestic pressures; that is, new (constructivist) logics of appropriateness come to govern their behavior. At other times, norms do not have individual effects; instead, they mobilize domestic groups that pressure elites to change policy in ways consistent with the norms (for example, Klotz, chap. 6). That is, normative effects are operating through (rationalist) means-ends calculations.

Perhaps this variation is explained and predicted by differences in political institutions across states. In liberal polities such as the U.S., where decision makers have little autonomy from societal groups, the rationalists' instrumental logic more often captures the domestic effect of systemic social structures. In states with greater autonomy and insulation from society (say, the former USSR), constructivist logics may more often capture the unit-level affects of norms.[51]

Conclusions

An IBM ad in a recent issue of the *Economist* shows a well-heeled executive holding his head and shaking it in despair: "Oh no, another paradigm shift," he laments. The good news for IR theorists is they face no such threat from the constructivists reviewed in this essay. However, this attests not to their failures but to the nature of their goals: dialogue, a widening of disciplinary foundations, and a commitment to causal analysis. These scholars are out not to colonize and deconstruct IR but to revitalize and expand its conceptual lenses.

That one can make so many critical observations about this work suggests, paradoxically, its achievements. The publication of the books discussed here, along with the work of scholars such as Wendt, Ruggie, and Kratochwil, has for the first time given constructivism a critical mass of research that is both theoretical and empirical. This allows a reviewer to probe for lacunae and tensions, as well as synergies in it.

At this point, instead of summarizing, a broader issue needs to be raised: what kind of constructivism do we want? Some constructivists might feel this review "mainstreams" them too much. The criticisms on research design, better specification of key terms, developing middle-

[51] For a full theoretical elaboration, see Checkel, "Between Norms and Power: Identity Politics in the New Europe" (Book manuscript in progress), chap. 2. Recent work on the role of international norms in U.S. policy-making is consistent with the argument made here. See Andrew Cortell and James Davis, "How Do International Institutions Matter? The Domestic Impact of International Rules and Norms," *International Studies Quarterly* 40 (December 1996).

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range theory, taking domestic politics and agency seriously, after all, sound like a primer for building a more coherent research program.

There are two reasons for constructivists to move in this direction. First, judging by many comments to this effect, it is the direction in which they wish to move. Their emphasis on dialogue and causal analysis suggests a fairly standard concern with building a rigorous and coherent body of research that speaks to and plays off other literatures within IR.

Second, in its present form, it is not clear what one does with constructivism. How could Finnemore's insights be applied to other international institutions—NATO, for example? Why do the transnational norms, which figure so prominently in Klotz's study, have seemingly no impact in contemporary China? Answers to such puzzles will come only when constructivists specify more clearly the actors—structures *and* agents—and causal mechanisms bringing about change, the scope conditions under which they operate and how they vary cross nationally. Absent this theorizing, the "what do we do with it" question will remain.

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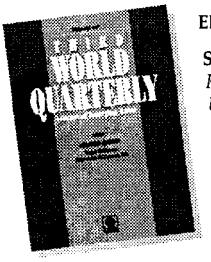

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The political transformation of Taiwan from an authoritarian regime based on martial law into a democracy based on a constitution is one of the great political sagas of the twentieth century. In this book, Linda Chao and Ramon H. Myers describe the precess whereby the Kuomintang, defeated on the Chinese mainland, underwent reform and established a new polity on Taiwan that allowed for four patterns of political development.

First, since 1950 the Kuomintang has engaged in a top-down, guided democratic process and has tolerated an opposition-driven, bottom-up democratization process. Second, a significant number of politicians in the Kuomintang and opposition internalized ideological-cultural adjustments that meshed with the practice of democracy. Third, local elections became institutionalized, eventually becoming national elections, which were themselves institutionalized by the mid 1990s. Finally, the ruling elites initially adhered to constitutional rule without practicing it, but their commitment to democracy, as well as pressure from the opposition, made it possible for a majority of politicians to restrain extremists and amend the constitution so that democracy could be practiced.

These four patterns of political change reflect a complex political process of behavioral and institutional change in which the key requisites for democracy—a responsible opposition, a political culture compatible with democracy, competing political parties participating in free elections, and respect for a constitution—now exist in Taiwan. As long as an extreme minority who endorse Taiwan nationalism remains committed to playing by the rules of democracy, and as long as the People's Republic of China does not try to destroy Taiwan's democracy, there is a good chance that the first Chinese democracy can survive.

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